

RENTAL ASSISTANCE AND PUBLIC HOUSING PROVISIONS OF S. 566

HEARING
BEFORE THE
SUBCOMMITTEE ON
HOUSING AND URBAN AFFAIRS
OF THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED FIRST CONGRESS
FIRST SESSION
ON
THE NATIONAL AFFORDABLE HOUSING ACT

JUNE 16, 1989

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1990

26-314

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

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RENTAL ASSISTANCE AND PUBLIC HOUSING PROVISIONS OF S. 566

FRIDAY, JUNE 16, 1989

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 10:14 a.m., in room SD-538 of the Dirksen Senate Office Building, Senator Alan Cranston (chairman of the subcommittee) presiding.

Present: Senators Cranston, Dixon, Sanford, Heinz, D'Amato, and Pressler.

Senator CRANSTON. The hearing will please come to order.

Today, we are continuing the Housing Subcommittee's series of hearings on S. 566, the National Affordable Housing Act.

I have a brief opening statement, but I will yield to Senator Alan Dixon to give him an opportunity to speak briefly, since I gather he has to be somewhere else very, very soon.

Alan, we are glad to have you with us.

OPENING STATEMENT OF SENATOR DIXON

Senator DIXON. Mr. Chairman, that is very kind of you.

Mr. Chairman, I am pleased to call to the attention of this subcommittee an outstanding member of the first panel, Ms. Irene Johnson, who represents the LeClaire Courts Resident Management Corp. in Chicago.

Recently, LeClaire residents celebrated their success in taking control of the management of their own living conditions. The Corporation has started business ventures which employ LeClaire residents.

Mr. Chairman, the LeClaire Courts Resident Management Corp. is on the move and will become one of our most successful public housing management groups.

And, Mr. Chairman, I would just like to say from the bottom of my heart that I have been out there in Chicago at LeClaire Courts with Irene Johnson. She has done a splendid job. I was the principal author of the tenant management provisions of the last housing bill, as my colleague from New York State and the distinguished Chairman know, and it has just been a personal thrill to me, a great reward to me personally to see Irene Johnson and her friends there at LeClaire do the super job they are doing, and so, Mr. Chairman, I am just delighted to present her to you as an outstanding American and a great leader in her community who is

doing wonderful work to give people jurisdiction over their own affairs, and I thank the Chair.

OPENING STATEMENT OF SENATOR CRANSTON

Senator CRANSTON. Thank you very much, Alan, and, Ms. Johnson, we do welcome you to the panel this morning.

Let me say briefly that the bill that we are considering has been receiving strong bipartisan support. It now has the cosponsorship of 40 Senators, well over one-third of the Senate. That includes a strong majority of the Senate Banking Committee and leading Senators from both sides of the aisle. I expect that a number of other Senators will be adding their names to the list of cosponsors before too long.

The National Affordable Housing Act emerged from two years of careful thought and hard work by a wide range of organizations and individuals throughout the nation. I believe the bill provides our most promising chance to launch the effective national housing strategy that is so long overdue.

This morning's hearing will consider two major pillars of national housing policy—public housing and rental assistance. Public housing is the oldest of our federal housing programs. It is home to more than 3.4 million poor Americans whose average income is less than \$6,000 a year. More than three of every five residents are members of a disadvantaged minority. Many have at least two children. More than 75 percent of the households are headed by a single adult. More than half receive welfare.

Clearly, public housing serves the neediest.

The National Affordable Housing Act reaffirms the Nation's commitment to expansion and improvement of the public housing inventory. The bill calls for significant increases in authorization levels for public housing modernization and operating subsidies. Increased funding for such activities is absolutely necessary for a credible and sustained attack on drug abuse in public housing.

The bill establishes two new programs that forge an explicit link between public housing and the supportive services sector. One program called Project Independence would provide better access to educational and employment opportunities for families with children in public housing. Supportive services could include job training or child care or adult education or other services that would help residents improve their circumstances.

The bill would authorize another program called Project Retrofit to enable frail elderly persons living in public and assisted housing to live with dignity and independence. Eligible services could include personal care or homemaker assistance or meals.

Under both programs, HUD would provide funding for renovation and rehabilitation only after a public housing authority has received assurances of funding for supportive services from states, localities, or other sources.

I particularly look forward to the comments of our witnesses this morning on how these two proposals could be made more effective.

The bill establishes a national commission to develop a national strategy to eliminate intolerable living conditions that exist in severely distressed public housing projects. Across the country Feder-

al low income housing programs are burdened by the negative image created by highly visible public housing projects that are indefensible as decent, safe places to live.

The existence of these conditions is a stain on the nation. Their elimination must be part of any effective national housing policy. Fortunately, many cities have developed effective strategies to turn around distressed projects—with the involvement of tenants, non-profits, community and business leaders. We will build on these efforts, identifying the most severely distressed projects, drawing the lessons from successful strategies, and providing a national action plan to eliminate unfit living conditions in these projects by the year 2000.

The National Affordable Housing Act will also move us beyond the sterile debate over vouchers and certificates. The act provides one form of rental assistance, called rental credits, that combines the best features of certificates and vouchers.

Like certificates, rental credits will ensure rent affordability. In general, holders of a rental credit would pay no more than 30 percent of their adjusted income for rent. The absence of this affordability protection is the major failing of the voucher program. One study reports that 25 percent of the low income voucher holders pay more than 40 percent of their income for rent, and obviously that is not acceptable.

Rental credits would, however, include some positive elements of the voucher program. They would permit tenants to pay more than 30 percent of their income for rent if they choose to find an apartment that is closer to good jobs or good schools.

Rental credits will provide many benefits over the current program. States and localities will be given discretion to provide project-based assistance and to recommend local refinements to the fair market rent system. Rental assistance will be allocated with more predictability to States and localities participating in the HOP program. The tenant preference system would be made more flexible.

I think rental credits are an intelligent middle ground that the Congress and the Administration can and should support.

I look forward to hearing your suggestions for making this provision even better.

I am delighted we have an excellent group of witness this morning. We have a very full schedule. I ask each witness to summarize your testimony within 5 minutes, although the full statement as prepared, if you have one, will go into the record, so that we will have sufficient time for questions.

Before proceeding with the panel, I want to ask my partner in this enterprise, Al D'Amato, the Ranking Republican Member of the Housing Subcommittee, for any opening remarks that you may have, Al.

Senator D'AMATO. Thank you, Mr. Chairman.

Mr. Chairman, I am going to ask that the statement that I have prepared be submitted for the record as if read in its entirety so that we can hear from our panelists.

Senator CRANSTON. Certainly. I also have a statement from Senator Sasser for insertion in the record.

STATEMENT OF SENATOR D'AMATO

Senator D'AMATO. Mr. Chairman, I am pleased to join you today as we assess one of the most popular sections of our legislation—the creation of one form of rental assistance, the “rent credit.” Public Housing Authorities, low-income advocates, and developers have all agreed that the “rent credit” proposal is a marked improvement over our current dual system of vouchers and section 8 certificates.

Subtitle B of title VI of the National Affordable Housing Act combines the best features of the section 8 and Voucher programs into one program called Rental Credits. Its purpose is to increase the number of very low-income families who can afford to live in decent housing, to maintain rental assistance needed to preserve the low-income affordability of federally assisted housing and to replace public housing that is demolished or disposed of; and to provide for the orderly renewal of expiring rental assistance.

Participants of section 8 find a unit in the private market and pay 30 percent of adjusted gross income. The local housing authority subsidizes the difference between the tenant's contribution and the contract rent charged by the owner.

Voucher participants also rent a unit in the private market. They are allowed to pay more than 30 percent of adjusted gross income if they choose to live in a unit which costs more than the fair market rent. They are also allowed to pocket any difference in the contract rent and the fair market rent if the unit costs less than the fair market rent. In many instances, tenants have been forced to pay considerably more than 30 percent of income out of necessity rather than choice due to lack of availability of housing. In addition, this program has also been more costly to the Federal Government.

I am hopeful that the “rent credit” proposal will correct some of these problems. I believe that it takes the best of both programs and forms an effective, workable form of rental assistance to those who are most in need.

Thank you, Mr. Chairman.

STATEMENT OF SENATOR JIM SASSER

Senator SASSER. Mr. Chairman, I welcome our witnesses who will testify today on the public housing system and how it is working today. These men and women have first hand experience with the strengths and weaknesses of our public housing system and the various forms of rental assistance. I commend you for bringing together this informative hearing and for the excellent and thorough job that you have done in holding this series of hearings on the National Affordable Housing Act.

The issues that we will explore today are of particular interest to me. As you know, the budget agreement that we reached this year was crucial to the future health of our low-income rental housing system. I'm pleased that we were able to include in the budget the \$1.1 billion necessary to provide a 15-year extension of the section 8 rental assistance contracts set to expire this year. The fact that we were able to reach an agreement to fund these expiring contracts

takes on particular significance when you look ahead to next year, when the cost of providing an extension will reach \$25 billion.

I look forward to our witnesses testimony and hearing their opinion on the best and most efficient ways to allocate our housing resources and bring our public system up to high standards that ensure a safe and clean place to call home for all tenants.

Thank you, Mr. Chairman.

Senator D'AMATO. But I think, Mr. Chairman, you make a very cogent and telling point, and that is the situation which is a crisis for so many who have to pay such a disproportionate amount of their income for rent. When people are paying 40 and in some cases 50 and 60 percent of their total income for housing, this creates an enormous toll on the family. Consequently I think legislation which is designed to give flexibility and yet to relieve our people of this terrible, onerous burden, particularly those who can least afford to pay a disproportionate amount of their income for rent, is one that should receive wide support, and I commend you, Mr. Chairman, and our staff for working as diligently to bring this legislation to a point where I believe we have a good chance of having most of it accepted and passed in a bipartisan manner.

So I thank you and I commend you for your leadership in this area.

Senator CRANSTON. Thank you, Al, very much.

I would now like to ask the other members of the first panel on public housing to come forward. The second panel will come later on rental assistance.

Mr. Echols, would you start? David Echols, who is the executive director of the housing authority of New Haven, CT, representing the National Association and Redevelopment Officials.

STATEMENT OF DAVID L. ECHOLS, EXECUTIVE DIRECTOR, HOUSING AUTHORITY OF NEW HAVEN, NEW HAVEN, CT ON BEHALF OF NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

Mr. ECHOLS. Thank you, Mr. Chairman, Mr. D'Amato, my former Senator—I am a former New Yorker—and members of the subcommittee, for the opportunity to present the views of the National Association of Housing and Redevelopment Officials on the public housing provisions of S. 566.

I am David L. Echols, executive director of the housing authority of the city of New Haven.

To get right to the heart of it, Mr. Chairman, the funding authorized by S. 566 in fiscal year 1990 to continue the Federal commitment to the more than 4 million poorest of the poor currently residing in public housing comes up short by about \$4.2 billion.

A number of important efforts are not addressed in the bill, such as lead paint, drugs, child care, supportive services, and production and new production, while the modernization program is a maintenance of effort level at a time when an enormous backlog of repair and replacement needs have been documented and continue to grow.

We don't like to be the ones to rain on the parade of support you have been hearing, Mr. Chairman, for this bill, but we feel we must

impress upon you and your subcommittee colleagues the longstanding need to maintain the existing public housing stock and add to it at a modest level. As you know, public housing is the only permanently affordable low-income housing.

And we must point out to you the increasing demands placed on local housing authorities for social services, literacy and high school equivalency training, job training, day care, after school care, security, meal service, housekeeping, and personal care for frail elderly, congregate dining, and transportation for our senior residents to health care, church, and grocery stores.

We applaud the bill's recognition of the need to provide supportive services on site to those most at risk—the homeless, frail elderly, mentally and physically disabled, and large families.

The bill, however, lacks such a service component. While it funds physical remodeling of space, no direct services are eligible project costs. Service coordination is an eligible project cost for section 202 sponsors, but not for public housing agencies.

We recommend the bill authorize service coordination as an eligible operating cost and 15 percent of the cost of support services in each of the supportive housing programs proposed under a 5-year renewable contract. We strongly suggest that child care be added to the bill as a specific supportive service in Project Independence for families in public housing. This funding will be a strong incentive to obtain matching service funds at the state and local level.

Out of the \$360 million authorized for 5100 replacement public housing units in the bill, 25 million is earmarked for Project Independence. We want the subcommittee to be aware of what that amount will buy; 30 one or two purpose family centers at a cost of \$225,000 per facility along with \$22,500 share of support services per year; or 15 multipurpose facilities and attendant services at \$450,000 per facility and \$112,500 share of support services.

It is not a big dent, but it is a beginning.

A NAHRO cost estimate for these two levels of service has been provided to subcommittee staff.

What we do insist, however, is that the funding of Project Independence be a separate line item and not an earmarking of the already strapped public housing replacement account.

NAHRO supports legislative initiatives to promote and reward good management practices regardless of organizational form. James Rouse testified before this subcommittee that successful public housing is based on good professional management, and he cautioned the subcommittee against regarding public housing resident management as a panacea for many of the intractable problems confronting low-income housing management. We concur in that point of view.

Currently, there are degrees of resident participation in the many tasks involved in maintenance, modernization, and management of public housing.

Initiatives to improve public housing must promote good performance by all PHAs, not just those with a particular form of management. Good management practices should be uniformly supported and rewarded, not the form of management.

NAHRO insists that HUD rules be enforced fairly and funds be distributed equitably when it comes to public housing management.

What that means is that tenant screening and eviction, income eligibility, and ceiling rent rules and waivers must apply to all management, whether PHA, resident, or independent management.

Modernization monies, likewise, must be provided on a formula basis for need and not on the basis of who is managing the property. Otherwise, an unfair system is allowed to spring up which favors certain types of management with easier rules and more generous funding. It penalizes residents of other public housing developments who must live by different, more stringent rules and with less operating, maintenance, and modernization assistance.

Public housing residents by definition are of very low income. The national average income of a public housing family is \$6,500, less than the poverty threshold for a family of four of \$9,500. One advantage they have over those in the private housing market is that not more than 30 percent of their adjusted household income will go for rent, thereby enabling them to buy other necessities.

NAHRO supports a separately authorized and funded home ownership program for low-income families which will add new net units to the low-income housing stock rather than deplete the public housing rental stock through its sale to residents. With a national waiting list for public housing of 840,000 households, we can ill afford to reduce this permanently affordable low-income housing resource.

The Housing Opportunity Partnership program appears to be such a low-income production program for both ownership and rental. We commend the sponsors for adding this tool to the affordable housing arsenal.

If resident ownership means selling the only permanently affordable low-income housing for a dollar to tenants, we would insist that such loss from the low-income housing inventory must be conditioned on one-for-one replacement of the permanently affordable low-income housing stock.

We realize the difficult budget era in which the Congress and the President are currently operating, with no new taxes and domestic discretionary spending cut to the bone. We face similar situations at the local level.

Senator CRANSTON. Mr. Echols, I am sorry, but I have to remind you of the 5-minute rule. If you could summarize the rest of your statement, please.

Mr. ECHOLS. I would move to just say, Mr. Chairman, and members of the committee that we are concerned about the omnibus drug bill, drug-free public housing, which we are in favor of, and would remind the committee that there needs to be funding for those most worthwhile programs or laws that have been enacted.

We would also bring to your attention our issue with respect to the National Commission on Severely Distressed Public Housing. Most of the authorities have devised plans to regain financial solvency and/or full management authority. The problem is funding.

So we are not in favor of creating a National Commission on Severely Distressed Public Housing, but rather would like to see HUD be charged with moving forward with a plan after consulting PHA's, residents, and other officials that have an interest in moving such a program ahead.

I thank you for this opportunity to present these remarks.

[The complete prepared statement of David L. Echols follows:]


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PROPOSED PUBLIC HOUSING PROVISIONS

of the

NATIONAL AFFORDABLE HOUSING ACT

(S.566)

Statement of

DAVID L. ECHOLS

Executive Director

 Housing Authority of the City of New Haven
 New Haven, Connecticut

on behalf of

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

before the

 Senate Subcommittee on Housing and Urban Affairs
 of the
 Committee on Banking, Housing, and Urban Affairs

Friday, June 16, 1989

The National Association of Housing and Redevelopment Officials is a 56 year old professional membership organization of housing and community development officials throughout the United States who administer HUD programs at the local level. Its membership, numbering 8500, represents most of the 3300 local public housing authorities. NAHRO has long participated in the creation and fine-tuning of national housing policy and programs.

Helen L. Sauer, President, Apolonio Flores, Senior Vice President, Michael A. Garcia, Jr., Vice President-Commissioners, William H. Garrett, Vice President-Community Revitalization and Development, Jack Quinn, Vice President-Housing, Michael F. Hanratty, Vice President-Member Services, Ophelia B. Bangal, Vice President-Professional Development, Richard Y. Nelson, Jr., Executive Director

Thank you, Mr. Chairman, and members of the Subcommittee for the opportunity to present the views of the National Association of Housing and Redevelopment Officials on the public housing provisions of S. 566.

I am David L. Echols, Executive Director of the Housing Authority of the City of New Haven. The New Haven Authority was created in 1938 and its first development consisted of 363 public housing units. Today, our authority manages 3,554 units of public housing; 1,515 Section 8 Rental Assistance Certificates; 384 Section 8 vouchers; and 164 units of Section 8 Moderate Rehabilitation.

The New Haven Housing Authority was classified by HUD as an "operationally and financially troubled" housing authority beginning in 1979. In October of 1987, we were able to become fully financially solvent and were no longer classified "financially troubled" by HUD.

We have 197 long-term, vacant public housing units in need of major repairs and replacements under the Modernization program. This does not include 366 vacant family units in six high-rise buildings approved for demolition by HUD in order that we might deconcentrate public housing and provide more suitable family housing on scattered sites.

They range in age from 40 to 50 years old. They, in turn, lend themselves to vandalism and related criminal activity including drug dealing. It is a continual battle to keep vacant units boarded up to thwart such criminal activity.

The last new public housing construction in New Haven (151 units) dates from 1986. We received HUD funding for 182 units of one-for-one replacement of public housing last year in partial fulfillment of the replacement needs of the 366 units we will be tearing down. This is part of our program to deconcentrate large family developments and provide affordable housing on scattered sites in neighborhood settings close to jobs, day-care, churches, schools, and shopping.

We have worked closely with the New Haven Police Department in a series of sting operations to rid our public housing communities of drugs. We have found that more than 70 percent of the arrests made on public housing property for drugs are non-residents of public housing. Indeed, a goodly percentage are New Haven suburbanites who drive into town for their drug deals.

Our residents have an annual income range of \$4000 - \$7000 and many of them are second and third generation public housing residents. We have 2117 female-headed families, whose age ranges from 18 to 65. Those families have a total of 2,327 children.

Our senior citizens number 1195 with an average annual income of \$6500. Rent collections average 96 percent of the total rent charged our residents.

There are organized and active Tenant Representative Councils for most of our 32 developments. They, in turn, have one representative each on a city-wide Tenant Representative Council which has a full-time director.

The Councils meet on a regular basis and bring their concerns to the attention of management. The city-wide Council participated in the screening committee to select me as Executive Director. They also participate in tenant screening and have played an active and supportive role in our modernization program meeting with authority staff, myself, and the contractors to discuss the proposed work before, during, and after it took place. This included deciding on the phasing of work and relocation of families. They are currently involved in designing site work, landscaping, sidewalks, and playgrounds for those modernized buildings.

Our waiting list for public housing numbers 1189 households with a wait for families ranging from 2 to 5 years and a wait of six months for seniors. The waiting list for Sec. 8 assistance numbers 497 households with an average wait of 6 - 12 months.

Our per unit subsidy from HUD to cover the difference between operating costs and 30 percent of tenant income for rent is \$186 per unit per month. The average tenant rent is \$152 per month. The aggregate total of rent arrears is \$133,795 which includes rent arrears, late fees, and damage charges.

As an operationally troubled housing authority, we have developed a five-year Modernization plan to repair and upgrade 3,554 housing units and to restore to occupancy all of our vacant, boarded units by 1993. We submitted this plan and its attendant cost of \$36 million to HUD in July of 1987 and it was quickly approved. To date, we have received \$18 million pursuant to that plan and have restored to occupancy 140 units, out of 802 currently undergoing major repair and replacement.

Because of the age of our public housing stock, a number of units contain lead paint. As you know, Mr. Chairman, this Subcommittee as part of the '87 Housing and Community Development Act, mandated public housing authorities to test and abate for lead paint in all units able to accommodate children under the age of seven. The New Haven Authority is abating in the 802 units undergoing modernization. We have a total of 2289 units built prior to 1978 when lead was still being used in paint.

We have undertaken this effort at considerable risk, due to the fact that no guidelines exist from HUD on the safest methods to abate and dispose of this toxic hazard and despite the fact that no federal monies were authorized or appropriated to carry out this mandate.

I have described the New Haven Authority, its buildings, residents, and its financial situation so that you might get a sense of what we on the front lines confront every day. Let me now turn to the provisions of The Affordable Housing Act and how it will impact not only our authority but the 3300 other local public housing authorities across this nation housing the poorest of the poor in more than 1.4 million apartments and homes.

FUNDING LEVELS

To get right to the heart of it, Mr. Chairman, the funding authorized by S. 566 in fiscal year 1990 to continue the federal commitment to the more than 4 million poorest of the poor currently residing in public housing comes up short by about \$4.2 billion.

EFFORTS NOT ADDRESSED IN THE BILL OR UNDERFUNDED

A number of important efforts are not addressed in the bill, such as lead paint, drugs, child-care, supportive services, and new production, while the Modernization program is a maintenance-of-effort level at a time when an enormous backlog of repair and replacement needs have been documented and continue to grow.

PUBLIC HOUSING: THE FORGOTTEN WORKHORSE

We don't like to be the ones to rain on the parade of support you've been hearing, Mr. Chairman, for this bill. But we feel we must impress upon you and your Subcommittee colleagues the long-standing need to maintain the existing public housing stock and add to it at a modest level. As you know, public housing is the only permanently affordable low income housing.

INCREASING DEMANDS FOR A CHANGED PUBLIC HOUSING RESIDENT POPULATION

And we must point out to you the increasing demands placed on local housing authorities for social services; literacy and high-school equivalency training; job training; day-care; after-school care; security; meals service, housekeeping, and personal care for frail elderly; congregate dining; and transportation for our senior residents to health care, church, and grocery stores.

These demands grow because of the changing demographics of the people we house. The families are headed by younger and younger women with less than a high school education whose principal source of income is Aid to Families with Dependent Children (AFDC). They are third and fourth generation public housing residents -- the poorest of the poor -- with few life coping skills and little faith that a hand-up to get them on their feet and into self-sufficiency is likely to come their way.

Our seniors are "aging in place", as we call it, -- growing old and frail in their current public housing apartments, and in need of support services in order to continue to live independently.

INCENTIVE FUNDING OF SUPPORTIVE SERVICES

We applaud the bill's recognition of the need to provide supportive services on-site to those most at risk: the homeless; frail elderly; mentally and physically disabled; and large families.

The bill, however, lacks such a service component. While it funds physical remodeling of space, no direct services are eligible project costs. Service coordination is an eligible project cost for Section 202 sponsors, but not for public housing agencies.

Experience demonstrates that both local service coordination and case management are essential if public housing families and the homeless are to move to self-sufficiency; if the frail elderly are to avoid premature and costly institutionalization; and if the mentally and physically disabled are to find peace and contentment in small group home settings.

To that end, we recommend the bill authorize service coordination as an eligible operating cost and 15 percent of the cost of support services in each of the supportive housing programs proposed under a 5-year renewable contract. We strongly suggest that child care be added to the bill as a specific supportive service in Project Independence for families in public housing. This funding will be a strong incentive to obtain matching service funds at the state and local level.

PROJECT INDEPENDENCE

Out of the \$360 million authorized for 5100 replacement public housing units in the bill, \$25 million is earmarked for "Project Independence". We want the Subcommittee to be aware of what that will buy:

- 1) 30 one or two purpose family centers at an average cost of \$225,000 per facility along with \$22,500 share of support services per year, or:
- 2) 15 multi-purpose facilities and attendant services at \$450,000 per facility and \$112,500 share of support services.

It's not a big dent, but it's a beginning.

A NAHRO cost estimate for these two levels of service has been provided to Subcommittee staff.

What we do insist, however, is that the funding of Project Independence be a separate line-item and not an earmarking of the already-strapped public housing replacement account.

RESIDENT MANAGEMENT AND OWNERSHIP OF PUBLIC HOUSING

Management

NAHRO supports legislative initiatives to promote and reward good management practices, regardless of organizational form. James Rouse testified before this Subcommittee that successful public housing is based on good professional management. And he cautioned the Subcommittee against regarding public housing resident management as a panacea for many of the intractable problems confronting low income housing management. We concur in that view.

Resident participation in management can be a valid choice in a given situation. It is one more tool that can be used depending upon local circumstances and need. For example, some housing authorities have helped create and contract with resident corporations for grounds maintenance, common areas upkeep, and the like. Others have employed residents in their security forces and in the modernization programs, where existing labor contracts permit. Others utilize residents for management responsibilities such as tenant screening, occupancy determinations, and other administrative tasks.

So there are degrees of resident participation in the many tasks involved in the maintenance, modernization, and management of public housing.

Initiatives to improve public housing must promote good performance by all PHAs, not just those with a particular form of management. Good management practices should be uniformly supported and rewarded, not the form of management.

NAHRO insists that HUD rules be enforced fairly and funds be distributed equitably when it comes to public housing management. What that means is that tenant screening and eviction, income eligibility, and ceiling rent rules and waivers must apply to all management, whether PHA, resident, or independent management.

Modernization monies, likewise, must be awarded on a formula basis for need and not on the basis of who's managing the property. Otherwise an unfair system is allowed to spring up which favors certain types of management with easier rules and more generous funding. It penalizes residents of other public housing developments who must live by different, more stringent rules and with less operating, maintenance, and modernization assistance.

A 1978 HUD demonstration, the National Tenant Demonstration Program, provided technical and financial assistance to six PHAs to assist in the creation of resident management. The Demonstration found that resident management can provide employment, improve the quality of life, and increase access to social services. The demonstration also revealed there may be significant resident resistance to implementing resident management. Considerable time, patience, technical assistance, resident training, and PHA involvement are needed to make resident management work.

We suggest the full costs and benefits of resident management have yet to be documented. We suggest this Subcommittee ask public housing tenants for their views and where they place resident management among their priorities. The National Tenants Organization, which represents public housing residents, has been urging for years a substantial new slug of modernization funding and public housing new construction. Seek out their views on this subject.

Ownership

Public housing residents, by definition, are of very low income.

The national average income for a public housing family is \$6500 -- less than the poverty threshold for a family of four of \$9500. One advantage they have over those in the private housing market is that not more than 30 percent of their adjusted household income will go for rent, thereby enabling them to buy other necessities.

NAHRO supports a separately-authorized and funded homeownership program for low income families which will add net new units to the low income housing stock, rather than deplete the public housing rental stock through its sale to residents. With a national waiting list for public housing of 840,000 households, we can ill afford to reduce this permanently affordable low income housing resource.

The Housing Opportunity Partnership (HOP) program appears to be such a vehicle for adding to the low income stock of both rental as well as homeownership housing. We welcome it as an additional tool.

Past experience with HUD low income homeownership programs -- the Turnkey III and Sec. 5(h) programs have had marginal success. Out of a total 2,951 units authorized for sale under the Sec. 5(h) program, only 547 units have been sold. Similarly, the Turnkey III program authorized the sale of 16,010 units since 1972. Since that time, however, only 2,932 have been sold.

Few residents of very low income have incomes sufficient to maintain their homes or for unexpected large repairs. Any unanticipated cost -- a visit to the doctor, purchase of children's school clothes, car repairs, additional child care -- can throw that fragile family budget out of whack. Counselling, job training and

placement, family budgeting, homeownerhsip rights and responsibilities training, and follow-up are essential parts of the transition to homeownership.

If resident ownership means selling the only permanently affordable low income housing for a dollar to tenants, we would insist such loss from the low income inventory must first be conditioned on one-for-one replacement of the permanently affordable low income housing stock.

NEW MANDATES: NEW MONEY

We realize the difficult budget era in which the Congress and President are currently operating with no new taxes and domestic discretionary spending cut to the bone. We face similar situations at the local level, but of a different magnitude.

What we ask of you, our elected officials, is to confront perceived national problems with equitable solutions that fully address all of the actors involved. And, most important, we ask that you match new requirements of local agencies with the requisite federal funding to do the job.

The lead paint requirements of the '87 Act are a case in point. Public housing authorities are the only people in the housing business required to get the lead out on a very tight time-line: the next five years.

No resources were authorized to make this five-year mandate workable. HUD estimates there are 440,000 units of public housing which must be deleaded at a per unit cost of \$15,000. That does not include the costs of disposing of this toxic material in a safe manner. Nor does it include the costs of temporary relocation of residents from the building under treatment.

NAHRO urges this Subcommittee to review with HUD, EPA, NIBS, NIEH, and other appropriate federal agencies in consultation with PHAs the full scope of the problem (including the private housing market), the reliability of current state-of-the-art testing and abatement methods, the costs of timely and safe abatement and disposal, the costs of relocation, the costs and risks of liability, and a realistic timetable for accomplishing this task.

Because an authorization of funds to abate lead paint in public housing was not included in S.566, we take that to mean that this Subcommittee and the Congress is not prepared to face the costs of this undertaking and are hoping to sweep it under the rug, so to speak, telling housing authorities to absorb the cost somehow or other. We cannot and are not able to do that, Mr. Chairman.

DRUG-FREE PUBLIC HOUSING

The Omnibus Drug Law enacted by Congress last Fall contained at least three programs of direct assistance to PHAs fighting the war on drugs on public housing property. In fact, Mr. Chairman, we understand you were instrumental in devising the \$34 million Drug Treatment Demonstration program of the Department of Health and Human Services (Sec. 2055) which targets populations including adolescents, minorities, pregnant women, female addicts and their children, and residents of public housing.

Your colleague, Senator Lautenberg, authored a HUD Public Housing Drug Elimination Pilot Program to beef up both physical security and a security presence within public housing communities (Sec. 5121). We are seeking \$50 million in appropriations to get that program off the ground in FY '90.

A third Department of Justice block grant in that law authorizes \$40 million in research into the illegal manufacture and sale of drugs in, among other places, public housing. (Sec. 5104).

Unfortunately, none of these programs have been funded by the Congress. We ask you and members of this Subcommittee to convince the Appropriations Committee members of the importance of these programs and to fully fund them in fiscal year 1990.

Several years ago, NAHRO developed a National Drug Task Force to foster greater understanding of the problems and solutions to those aspects of the national drug problem pertinent to the public housing community. Copies of that report were sent to each of you in late March. We ask you to review that report and, if you feel you can take legislative action to implement parts of it, we would be happy to discuss our findings with you in more detail.

I understand the Subcommittee plans a separate hearing on this subject next Month at which time NAHRO will be offering its comments.

Let me just say the vast majority of public housing residents are law-abiding Americans struggling to raise families, ensure their children's education, and secure job skills. They, more than perhaps anyone else, want to rid their neighborhoods and apartment buildings of drugs. And public housing authority officials are working with them to ensure that happens.

MAINTAINING THE CURRENT LOW INCOME PUBLIC HOUSING STOCK

In May of 1988, Abt Associates reported to HUD that the accumulated backlog of public housing major repair and replacement needs totalled \$21 billion. This is the estimated cost to replace roofs, heating systems, window frames, mechanical and plumbing systems in our aging public housing stock.

The current appropriation level is \$1.7 billion. S.566 proposes \$1.9 billion. To get started on this tremendous backlog and to begin setting aside reserves against future repair needs, NAHRO suggests Public Housing Modernization be funded at \$3.5 billion in FY'90 and '91.

I mentioned the long-term vacant units in New Haven. Nationally, there are 78,000 long-term, vacant public housing units in need of modernization. This is a resource we can ill afford to continue wasting. Our waiting lists are long. People need affordable housing. The longer these apartments remain vacant, the greater the chance they will fall victim to drug dealing and other criminal activity.

Returning these vacant units to occupancy makes good economic and social sense at a time of a national housing crisis.

ADDING TO THE LOW INCOME STOCK

In 1980, HUD funding added 150,000 net new units of public and private low income housing to the national inventory. By 1988, that production had dropped to 19,000 units per year for the entire country.

Mr. Chairman, if there is one misguided policy from the decade of the Eighties which this Subcommittee can set right, it is the exclusive reliance on demand-side housing vouchers to meet diverse, national needs. There continues to be a great need to continually add to the nation's supply of affordable housing for low and moderate income Americans.

Public housing authorities, as the oldest, largest, and most successful public institutional network with the largest production track record of low income housing, believe public housing new construction is an essential component of a new national recommitment to producing affordable housing.

With the growing numbers of lower income and working poor paying exorbitant shares of their family budgets for rent, with the continued conversion of affordable housing to other uses, and with the demolition of other units, we can ill afford to overlook public housing authorities as an important resource. We have the expertise in contracting, financing, leasing, project management, and maintenance to get the job done quickly and cost-effectively.

NAHRO believes a modest beginning in fiscal year 1990 would be 20,000 new units of public housing at an estimated cost of \$1.4 billion. That's a per unit cost of roughly \$70,000 to provide permanently affordable low income housing.

S. 566, by contrast, funds approximately 5100 public and Indian housing units. Most of the 5000 non-Indian public housing will be used for one-for-one replacement of units in projects where the density is being reduced or desegregation efforts are underway. That small number of units is a band-aid, Mr. Chairman, in the larger scheme of things.

There is no question those 5100 units are needed to aid those cities and their authorities working to desegregate public housing throughout their communities on scattered sites. But it is, nevertheless, a drop in the bucket, when we consider the 840,000 households nation-wide currently on public housing waiting lists.

LEVEL PLAYING FIELD FOR PUBLIC HOUSING AUTHORITIES

We recognize the National Affordable Housing Act seeks to promote partnerships and involve new players in affordable housing production and management. We commend you and your Subcommittee colleagues for that effort. Clearly the cause of affordable low and moderate income housing needs all the friends it can get.

But PHAs feel overlooked as important partners to a certain extent by your bill, Mr. Chairman. For example, eligible sponsors of Supportive Housing for the Elderly, Frail Elderly, and Handicapped do not include PHAs. Yet, nonprofits, limited-dividend sponsors, consumer coops, or any other public body or agency, except PHAs, are eligible sponsors. This is despite the fact that PHAs pioneered the development and management of low income elderly housing and now house more than 600,000 elderly households, more than any other housing provider.

In a word, Mr. Chairman, PHAs feel left out of the partnership. We ask that you include us.

BUILD ON SUCCESSES

We would like to see some recognition and maintenance-of-effort funding in S. 566 of a very successful, but small initiative known as Project Self-Sufficiency. That HUD program focusses special attention and case management on single AFDC mothers seeking to gain job skills and employment. Using the Section 8 certificate program, PHAs provide decent, safe housing while the community supplies child-care and trains mothers in job skills which will lead to real jobs with income potential.

Since Project Self-Sufficiency was initiated in 1984, some 134 public housing authorities have participated. An August 1988 HUD report documented that 42 percent of nearly 10,000 individuals had either obtained full-time jobs with growth potential or were enrolled in two or four-year college programs. A high percentage of other participants are continuing to pursue actively their goals for self-sufficiency.

NAHRO urges the Subcommittee to authorize public housing authorities to utilize up to 25 percent of their Section 8 allocations to house single-parent households participating in programs to achieve self-sufficiency as well as provide modest funding support to coordinate this effort.

NATIONAL COMMISSION ON SEVERELY DISTRESSED PUBLIC HOUSING

I have stated the New Haven Housing Authority is an operationally troubled PHA. It is one of twenty-two such PHAs with a total of 253,991 public housing units.

Most of these authorities have devised plans to regain financial solvency and/or full management authority. The problem is funding. Our financial distress results from years of under-funding of long-festering problems such as delinquent rents, deferred maintenance, long-term vacant units, and serious understaffing in maintenance and management.

We know what the problem is and how to address it. We do not need further study of it -- which is what the proposed National Commission on Severely Distressed Public Housing is charged with.

It is not at all clear to us that a federal commission to study the physical condition of selected public housing developments will lend new impetus, insights, or financial resources to this on-going effort. We are concerned that this proposal will be considered by some in lieu of the much-needed federal funds to remedy local situations already well-documented.

NAHRO recommends this proposal be dropped and that HUD be directed to consult with affected PHAs, residents, and national organizations in developing an action plan, timetable, and funding schedule to address the full range of physical, financial, personnel, and managerial problems confronting these housing authorities.

That completes my prepared remarks, Mr. Chairman. Attached to my prepared statement is the NAHRO-proposed authorization levels for the initiatives I have discussed. I would be happy to answer your questions.

**NAHRO****National Association of Housing and Redevelopment Officials**

1320 Eighteenth Street, Northwest, Washington, D.C. 20036-1803 (202) 429-2960

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PROPOSED FISCAL YEAR 1990 BUDGET AUTHORITY LEVELS**PUBLIC HOUSING**

<u>Program</u>	<u>Budget Authority</u>	<u>Units</u>
Modernization	\$3.5 billion	
Operating Subsidies	\$1.8 billion	1,178,700
New Construction	\$1.4 billion	20,000
Indian Housing	\$375 million	5,000
Demolition/Disposition	\$350 million	5,000
Lead Paint Abatement	\$1.3 billion	88,000
Child Care Grants	\$ 10 million	
Project Independence	\$ 25 million	15/30 facilities
Project Self-Sufficiency	up to 25% of Sec. 8 allocation	
Drug Elimination Pilot	\$ 50 million	

Heleen L. Sause, President, Apolonio Flores, Senior Vice President, Michael A. Garcia, Jr., Vice President-Commissioners, William H. Garrett, Vice President-Community Revitalization and Development, Jack Quinn, Vice President-Housing, Michael F. Hanratty, Vice President-Member Services, Ophelia B. Bagal, Vice President-Professional Development, Richard Y. Nelson, Jr., Executive Director

Senator CRANSTON. Thank you very much.

Let me say that we agree that the need for supportive services in public housing is very, very great, and that is why we are working closely with Senator Kennedy to leverage Banking Committee housing dollars with Labor Committee service dollars. This partnership is at the heart of Project Retrofit, and it is at the heart of Project Independence, and I urge you to give this leverage proposal very careful consideration.

Mr. ECHOLS. Thank you, Mr. Chairman.

Senator CRANSTON. Now, I would like to call on Earl Phillips, of the Houston Housing Authority, representing the Council of Large Public Housing Authorities.

STATEMENT OF EARL PHILLIPS, HOUSTON HOUSING AUTHORITY, HOUSTON, TX, ON BEHALF OF THE COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES

Mr. PHILLIPS. Thank you, Mr. Chairman. Good morning.

Mr. Chairman, Senators, Staff, and invited guests, thanks for the opportunity to allow us to testify before you today.

My name is Earl Phillips, and I am chairman of the Council of Large Public Housing Authorities, called CLPHA, an organization of some 48 public housing authorities that together manage approximately 35 percent of the nation's stock of 1.4 million conventional public housing units in the Nation, plus a large portion of Section 8 rental assistance programs as well.

First, since the National Affordable Housing Act authorizes the level of funding for the future housing programs, I would like to emphasize that getting the housing programs moving again will cost the Federal Government an additional amount of dollars. I know you are aware of that.

In looking at the housing programs in general, in order to maintain and modernize and expand the existing public housing stock and offer assistance to residents to enable them to become more independent and replace expiring Section 8 certificates and vouchers and address the prepayment/expiring use restrictions problems, and expand the rental assistance programs, provide all the additional special needs housing programs that are necessary, and additionally inaugurate the new programs proposed in the act, at least some \$20 billion per year in new authorizations will be required, according to some estimates.

I guess the question then one has to ask is can the nation afford to spend these kinds of dollars for the new programs.

With a Federal budget of over \$1 trillion, however, less than 2 percent of this total amount would provide some \$20 billion annually for the housing assistance. CLPHA believes that that 2 percent of the Federal budget for housing assistance is well within the Nation's reach, and that it is required if the Nation is to establish its priorities more fairly, and we certainly would support that.

The act itself authorizes \$1.8 billion for fiscal year 1990 and \$1.8774 billion for fiscal year 1991 for public housing operating subsidies.

Mr. Chairman, we appreciate what the committee has done here, but these figures in our estimation are still too low. Over \$100 mil-

lion more is needed in each of these two years just to bring funding levels up to the 100 percent of what is required already under the HUD's performance funding system, and the PFS has been modified recently to reflect the public housing authorities' insurance costs somewhat more adequately, though still not completely.

For the public housing modernization program, the act authorizes a level of \$1.9 billion annually. Yet a recent study done by HUD and its consultants, Abt Associates and ICF, Inc., has shown that there is a backlog of over \$20 billion in unmet public housing modernization needs that need to be dealt with, and that a funding level of some \$3.7 billion per year is needed in order to reduce the backlog of undisputed needs nearly to zero by the year 2000, even without the additional funding needed to address the lead paint problems.

We certainly appreciate the concern that your staff has shown over the lead paint issue and their efforts on McKinney amendments, and we may need even more help from them legislatively on the lead issue. But again we recognize that it is going to cost additional dollars.

We would also like to see the public housing programs carry a greater share of all of the things that are being discussed in the new development because we want to do it, we have shown in the past that we can do it, we can do it well, and we can show that the public housing does in fact last in this nation versus prepayment and other problems with other methods.

We suggest some \$700 million for public housing development in fiscal year 1990 as a way of beginning to rebuild the program and a billion dollars in fiscal year 1991. Good housing policy, good housing production, and good sense call for helping to restore the public housing programs, and we certainly would encourage you to look at that across the nation.

I would like to just hit a couple of quick areas in the provisions of the bill. The National Commission on Severely Distressed Public Housing.

Our organization applauds your proposal to establish a National Commission on Severely Distressed Public Housing. We regard this as an important effort. Everyone knows that there are some developments that represent situations that are impossible or difficult to manage, and that represents bad public policy or mistakes in the implementation of that policy.

What is less widely known and appreciated, however, is the fact that there are only 4 to 5 percent of the country's 10,000 projects in the category of seriously distressed projects and that the balance of the stock is in reasonably adequate condition and with proper modernization can continue to serve a long and useful life without major effort. We hope that the Commission will help to publicize this, as we call, good news about public housing across the nation.

Unfortunately, in the case of many severely distressed developments, we do nothing but bemoan them and they consequently come unfairly to represent the image of public housing for far too many people across our Nation.

What we do know for a fact from the experience of many housing authorities across the Nation is that many of them can be redeemed, even though some of them may be irredeemable.

The National Housing Task Force recognized this, addressing the problem, as you well know that it has been mentioned already by my colleague.

What the Commission you are proposing will provide is the leadership to move HUD to provide the leadership to show the way for local solutions that have not been forthcoming in the 30 to 40 years.

The Commission is needed to help bestir HUD and other organizations to focus in on this problem and ultimately to assist local groups.

The one thing that I do hope that the Commission, once it is formed, will recognize is that there are some programs across this Nation, large public housing authorities like in New York City, that has hi-rise public housing and there are some that have lo-rise public housing that are doing an outstanding job across this country, and those things need to be highlighted in a very positive way and many times have not been.

In terms of social viability, we appreciate the focus that the bill has on the social side of the program.

I know my time is running down.

We salute the Project Independence. We look at it as a good companion to our Gateway bill, which is being sponsored by Senator Mikulski. We had her in a meeting with us yesterday. We talked about this. This bill, the Gateway bill, seeks from the appropriate committee monies of \$50 million for literacy, job training, child care, and protection of medical benefits.

Project Independence authorizes money to adapt public housing to help families gain better access.

These kinds of things need to be done.

The one point that I do want to make here, in the draft we talked about the partnerships and the HOP especially, the HOP provisions and their relationship to public housing. It has been a little disturbing—and I must say this—for us to go through the sections of the bill so far relative to the proposed new HOP program and to find that public housing is referred to in such a minimal way, only in two somewhat obscure provisions of the new program.

CLPHA does not understand why the PHAs haven't been more actively named as a potential HOP participant and why the HOP program doesn't do more to take advantage of the resources that we already have through our public housing agencies across the country.

There are currently over 3,000 public housing agencies operating in communities across the Nation, and most of them for a very long period of time have effective track records, with limited kinds of resources, and have been demonstrating to the Nation a very positive role in working in programs of this type, and there are many, many housing authorities across the Nation that are involved and have been involved in public/private partnerships for many, many years.

An example is Houston, where there are all kinds of public/private partnerships, nonprofit corporations that have been worked on and developed with the housing authority, with the corporations in the Houston metropolitan community, and I would just suggest very strongly that—and we are grateful that you have continued to

support public housing and continue to keep the public housing development programs, in particular, alive, but we really do want to suggest very strongly that you look at that public/private partnership part of the bill and make sure that public housing authorities are mentioned specifically in those kinds of partnerships and those kinds of relationships so that we don't just imply that that is what we are supposed to be doing, but in fact say it in a very positive way.

I thank you for your time and effort.

[The complete prepared statement of Earl Phillips follows:]

CLPHA

Council of Large Public Housing Authorities

TESTIMONY OF
EARL PHILLIPS,
CHAIRMAN,
COUNCIL OF LARGE PUBLIC
HOUSING AUTHORITIES
(CLPHA)

CONCERNING THE PROPOSED
NATIONAL AFFORDABLE HOUSING ACT
(H.R. 566)

BEFORE THE
U.S. SENATE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

ALAN CRANSTON CHM.
ALFONSE D'AMATO RANKING MINORITY MEMBER

JUNE 16, 1989

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Summary of Contents of Testimony

1. Proposed funding levels authorized by NAHA.
2. Comments on public housing provisions of NAHA.
3. Additional public housing provisions recommended by CLPHA.
4. Comments on HOP: need for stronger statements regarding PHA participation in HOP.
5. Comments on proposed new Rental Credits program.

Mr. Chairman, Senators, staff and invited guests, thank you for this opportunity to testify before you today on the National Affordable Housing Act (NAHA), especially the provisions that affect public housing.

My name is Earl Phillips and I am the Chairman of the Council of Large Public Housing Authorities (CLPHA), an organization of 48 PHAs that together manage approximately 35% of the nation's stock of 1.4 million conventional public housing units, plus a large proportion of the Section 8 rental assistance program, too.

1. FUNDING LEVELS AUTHORIZED

First, since NAHA authorizes the levels of funding for future housing programs, I would like to emphasize that getting housing programs moving again will cost the federal government more money.

(a) Housing programs in general.

In order to maintain, modernize and expand the existing public housing stock, offer assistance to residents to enable them to become more independent, replace expiring Section 8 certificates and vouchers, address the prepayment/expiring use restrictions problem, expand rental assistance programs, provide special needs housing (with appropriate supports) -- and additionally inaugurate the new programs proposed in this Act -- at least \$20 billion per year in new authorizations will be required, according to some estimates.

Can the nation afford to spend this much on its housing programs? Some say no.

With a federal budget of over \$1 trillion, however, less than two percent of this total would provide \$20 billion annually for housing assistance. CLPHA believes that two per cent of the federal budget for housing assistance is well within the nation's reach, and that it

U.S. Senate, 1989 Housing Act, CLPHA testimony, June 16, 1989, page 3

is required if the nation is to establish its priorities more fairly.

(b) Public Housing Operating Subsidies.

NAHA authorizes \$1.8 billion for FY90 and \$1.8774 billion for FY91 for public housing operating subsidies.

Mr. Chairman, we appreciate what the Committee has done here, but these figures are still too low. Over \$100 million more is needed in each of these two years just to bring funding levels up to 100% of what is required under HUD's "Performance Funding System" (PFS) -- as the PFS has been modified recently to reflect the PHAs' insurance costs somewhat more adequately (though still not fully).

Even these higher figures would not provide the funding needed for other important items such as recaptures, crime and drugs. These need attention, too.

We also hope that your committee will contact the Appropriations Subcommittee to help us obtain \$88 million in supplemental funds for FY89.

The \$8 million that PHAs would get for drugs this year, if the supplemental appropriations bill were passed, would come to only \$2700 per housing authority.

(c) Public housing modernization and lead paint testing and abatement.

For the public housing modernization program (CIAP), the Act authorizes a level of \$1.9 billion annually.

Yet a recent study done by HUD and its consultants, Abt Associates and ICF Inc., has shown that there is a backlog of over \$20 billion in unmet public housing modernization needs, and that a funding level of \$3.7 billion per year is needed in order to reduce the backlog of undisputed needs nearly to zero by the year 2000, even without the additional funding needed to address lead paint problems.

The HUD study also clearly shows that at current funding levels we are continuing to slip further and further behind, and the backlog of unmet needs consequently continues to grow.

We appreciate the concern your staff has shown over the lead paint issue, and their efforts on McKinney amendments (on lead paint), and we may need even more help from them legislatively on the lead issue, but it's going to cost money.

U.S. Senate, 1989 Housing Act, CLPMA testimony, June 16, 1989, page 4

(d) Public Housing Development.

You have provided in the Act an annual level of \$359 million for public housing development.

We have noticed that the front part of the bill provides \$3 billion for a totally new program that's not without complication and will take some time to implement. We applaud these new efforts to address the nation's housing problems.

However, we would like to see public housing programs carry a greater share of that new development, because we want to do it and we have shown we can do it expeditiously, and we can show that public housing lasts, versus prepayment and other problems with other methods.

We suggest \$700 million for the public housing development program in FY90 as a way of beginning to rebuild the program, and \$1 billion in FY91.

Good housing policy, good housing production and good sense call for helping to restore the public housing program to meet these needs.

It was only in 1980 that 56,000 units per year were being reserved by the public housing system, which shows that that system can plainly do the job.

And we urge continued support for the 202 and FmHA programs, too. Like public housing, they can do the job, and they're tried and true. Like public housing, they can produce promptly. They, too, have established rules and established users, sizable unmet demands, and can move smartly out and do the job.

While we're on the subject of development, we welcome the committee's moving the country back into the development of housing, because we know it's needed. We have huge waiting lists; and vouchers or certificates don't serve the need in many cases. In many communities, more development is sorely needed.

U.S. Senate, 1989 Housing Act, CLPHA testimony, June 16, 1989, page 5

2. Comments on Specific Public Housing Provisions of the Bill.

Now I would like to go through some of the public housing provisions of the bill, and then I will have some more general comments about the HOP provisions of the bill.

(a) National Commission on Severely Distressed Public Housing.

CLPHA applauds your proposal to establish a National Commission on Severely Distressed Public Housing.

We regard this as an important effort. Everyone knows there are some developments that represent situations that are impossible or difficult to manage, and that represent bad public policy or mistakes in the implementation of that policy.

What is less widely known and appreciated, however, is that there are only 4-5% of the country's 10,000 projects in the category of "seriously distressed projects," and that the balance of the stock is in reasonably adequate condition and -- with proper modernization -- can continue to serve a long and useful life without major "extra effort". [We hope that the Commission will help us publicize this "good news" about public housing.]

Unfortunately, in the case of many severely distressed developments, we do nothing but bemoan them -- and they consequently come unfairly to represent the image of public housing for far too many people.

What we know for a fact, from the experience of many housing authorities, is that many of these can be redeemed (though some may be irredeemable).

The National Housing Task Force (Rouse/Maxwell) recognized that addressing the problems of the most seriously distressed public housing developments should be high on the nation's housing agenda, when it stated in its final report:

"The very worst housing projects must be targeted for immediate action.. The Task Force finds that the persistence of intolerable conditions in even a very few projects blights not only the lives of the people who live in them and the neighborhoods in which they fester, but the entire effort to house low-income people in the United States."

What the Commission you are proposing will provide is the leadership to move HUD, to provide the leadership to show the way for local solutions that have not been

U.S. Senate, 1989 Housing Act, CLPHA testimony, June 16, 1989, page 6

forthcoming in the 30-40 years that many of these projects have stood.

The Commission is needed to help bestir HUD to focus on this problem, and ultimately to assist local groups. There's nothing being imposed here except a little leadership and knowledge and focus. We can't have another generation ignoring these issues. They're not just a public housing problem, they're an American problem.

(b) Social viability.

We also appreciate the focus that the bill has on the social side of public housing. The provision in Section 611(b) allows up to 25% of all projects to be occupied by low rather than very low income families. CLPHA believes it is good to give this kind of option to the PHAs.

It is CLPHA's understanding that the purpose of this section is to provide that -- regardless of when the project was made available for occupancy (pre-1981 or post 1981) -- any development can now have 25% of its units for people of low income (not just developments that are developed in the future under this section).

(c) Improved design.

We are pleased to see that NAHA directs that public housing should be developed with adequate common space for various special needs (families with children, elderly persons, persons with functional or other disabilities).

(d) Project Independence

CLPHA salutes Project Independence. We look on it as a good companion to our "Gateway" bill, which seeks from the appropriate committees money for literacy, job training, child care and protection of medical benefits.

"Project Independence" authorizes money to adapt public housing to help families gain better access to better educational and job opportunities.

(e) Limitations on size of new developments.

NAHA would limit family public housing to no more than 100 units, and would prohibit family high-rise elevator projects.

There have been virtually no family hi-rise elevator public housing projects built in about 20 years, and indeed most projects being developed throughout the country now are under 100 units -- and the great majority are under 50 units.

U.S. Senate, 1989 Housing Act, CLPHA testimony, June 16, 1989, page 7

We believe that putting these provisions in the bill may be educational to some of those who haven't realized that's been the state of affairs for quite a while.

We would also point out, however, that some cities, for example New York City, have demonstrated that high-rise family public housing can be managed well by a capable authority. In fact, these may be the only feasible options in some cities. CLPHA supports the "waiver" provisions in the bill to handle these cases.

(f) Large-unit preference for public housing development.

CLPHA supports Section 611(c) of NAHA, which amends Section 6 of the Housing Act of 1937 by striking out subsection (j), which gives priority to projects of housing suitable for occupancy by families requiring 3 or more bedrooms.

PHAs should be able to provide additional units according to a local determination of what size units are most urgently needed. By far the heaviest demand on our members is for two-bedroom units.

3. Recommended additions to the bill concerning public housing.

(a) Costs of development (and modernization).

HUD has made processing development projects more restrictive through use of unfounded cost guidelines. HUD has just extended the cost guidelines that expired in March without any increases in costs for the year ahead, and without recognizing that the new access provisions of the Fair Housing Act will require additional costs.

CLPHA can't understand why PHAs can't be like other agencies: if we put a project out to bid under the public bidding requirements, we ought to be able to accept whatever bids are lawful. Billions of dollars are spent under other programs using these kinds of public bidding provisions, without "in-house" cost containment policies that are really anti-program policies. That ought to be made explicit in the law.

(b) Appeals process for any proposed recaptures.

For any and all recaptures, there ought to be an appeals process required, similar to the CDBG appeals process, before HUD can take any money back.

U.S. Senate, 1989 Housing Act, CLPHA testimony, June 16, 1989, page 8

(c) Implementation of CIAP and other provisions of the Housing Act of 1987.

We would again ask the Committee, as we have for many years now, for its help in prodding HUD to produce more of the promised results of the public housing modernization needs study, for which funding was initiated in federal FY83, six years ago.

HUD has yet to produce most of the information and reports originally included in the study's research design.

In addition, HUD has not yet produced the analysis and proposals that Congress asked for in the 1987 Housing Act, concerning methods of distribution of funding for the CIAP program. That report was due in February 1989. The Act also called for frequent consultation with PHAs and their representative groups in the preparation of such a report, and this has not happened.

Had HUD produced these studies in a timely manner, the Congress, the PHAs and others would have had a chance to examine them; and you would have been able to consider them for possible action during this legislative session.

We also ask for your help in demanding that HUD implement two other important provisions of the Housing Act of 1987:

(a) the rules implementing the broader discretion given to the PHAs re CIAP; and,

(b) we still have no rules implementing the break-through or appeals provisions (operating subsidy).

As a result of HUD's failure to implement the latter, PHAs across the country may be losing millions of dollars in operating subsidy to which they are entitled. This wrong needs to be redressed.

(d) One-for-one replacement requirements.

CLPHA urges your Committee to review the requirement of 1-for-1 replacement of removed public housing.

Especially where some reduction in density is needed in order to deal with the problems of the most seriously distressed public housing developments, it may be necessary to look at a greater variety of approaches to meeting replacement housing needs.

It is sometimes extremely important to reduce housing density at high-density sites. If this is not done, it may be impossible ever to make these sites viable.

Alternative sites for development may be unavailable, especially in cities that are already very built up.

U.S. Senate, 1989 Housing Act, CLPHA testimony, June 16, 1989, page 9

The burden on the PHAs of addressing the problems of their most seriously distressed developments should be reduced, so that they can in fact address these problems effectively.

One step that would help would be to have additional 15-year Section 8 certificates authorized, that could be committed to a redevelopment project during its initial planning phase. This kind of commitment would act as a good-faith assurance to the residents that their future housing needs would be provided for, even if the site density were reduced.

And in many areas, replacement housing should be provided in suburban areas, not central cities, so that overconcentration of public housing could be reduced.

4. The HOP provisions and their relationship to public housing.

Frankly it has been a little disturbing for us to go through the sections of NAHA relative to the proposed new HOP program, and to find public housing referred to so minimally, only in two somewhat obscure provisions of the new program.

CLPHA does not understand why PHAs haven't been more actively named as potential HOP participants, or why the HOP program doesn't do more to take advantage of the resources we have.

There are currently over 3,000 Public Housing Agencies operating in communities across the country. Most of these agencies have a long and effective track record in addressing local housing needs and problems, consistent with the resources that have been provided to them, and they know the needs of their communities. In many of these communities there are no other groups or agencies presently addressing housing problems.

PHAs have been active in the game of providing housing for those in need for 50 years, in season and out of season. We've had to "make do" in the lean years when substantially inadequate funding was provided to maintain existing resources; and if new resources are now going to be provided, we would like to share in these, too.

We applaud the new program initiatives contained in NAHA. There's certainly plenty of work for everybody to do. But since the central idea of the HOP sections of the bill is to stimulate a variety of types of housing partnerships, we would ask that public housing be more explicitly named as a potential party in those partnerships, too.

U.S. Senate, 1989 Housing Act, CLPHA testimony, June 16, 1989, page 10

The National Housing Task Force (Rouse/Maxwell) recognized the important role that PHAs can play in these efforts when it recommended that:

"....public housing authorities should be permitted to use up to 25 percent of HOP funds."

Specifically, we would ask that in the definitions and other sections where the bill lists the kind of private and non-profit organizations that would be expected to participate in these new partnerships, Public Housing Authorities be added to these lists, so that there will be no doubt about your intentions. (1)

We are grateful you have continued to support public housing and continued to keep the public housing development program in particular alive. We want some more money for it, and some statutory changes; and we want to be considered as much a part of the public\private partnerships part of the bill as anyone else.

5. Rental credits.

Vis-a-vis rental credits, we want to amplify our continued concern, stated more extensively in other testimony being given here today, that the tenant-based assistance should continue to flow to the PHAs directly, as it has in the past, without the threat that this program might be removed from the PHA's jurisdiction by some other unit of state or local government.

Thank you for this opportunity to appear before you today. If you have any questions, I would be happy to try to answer them at this time.

(1) Note: we understand that you do want us to be an eligible user of these funds, which will be distributed by state and local units of general local government. Presently, however, public housing is referred to primarily in a kind of left-handed way in Section 321, which states only that:

"nothing in the previous sentence shall preclude PHAs from fully participating in the implementation of a jurisdiction's housing strategy."

CLPHA asks that the wording of the bill be changed to state that the HOP program should maximize participation of all organizations, including public housing authorities." The bill currently contains a 10% set-aside of all the money for non-profit community organizations (e.g. CDCs). We don't need to get into that set-aside; but everywhere else where the Act uses the term "non-profit" in specifically referring to implementation agencies, PHAs would like to be added, too. For example, Section 351 of the MANA states that under the new Home Corporation, HUD can contract with certain "eligible organizations." An eligible organization is then defined as a "participating jurisdiction" or "agency thereof", or "a public purpose organization established pursuant to legislation and responsible to the chief executive officer of a participating jurisdiction." It is not always clear whether a Housing Authority is an agency of a particular state or local government. In some cases they have been more independently established by state and local law. So under Section 351, the Home Corporation "shall .." contract with eligible organizations, please explicitly add PHAs to the list. We want to contract with the Home Corporation, too, and to be a recognized party to the new public-private partnerships.

CLPHA

Council of Large Public Housing Authorities

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Comments by the
 Council of Large Public
 Housing Authorities (CLPHA)

ON

"Administrative Costs of the Housing
 Voucher and Certificate Programs,"

A report by Abt Associates, Inc., June
 16, 1988, for the Office of Policy
 Development and Research, U.S. Dept.
 of Housing and Urban Development.

October 1988

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Attachment: response prepared by Leased Housing Division,
Boston Housing Authority.

SUMMARY OF CLPHA RESPONSE

The focus of the HUD/Abl report on administrative fees under the Section 8 certificate and voucher programs is extremely narrow.

The study responded to only two questions:

- (1) How much money did a few large urban PHAs actually spend on what Abl defined as the administration of their Section 8 certificate and voucher programs during a short period of time? and,
- (2) How did these amounts compare with what these PHAs received as administrative fees from HUD?

The study collected no data and shed no light on the much more important question of whether or not the PHAs' administrative expenditures (and fees from HUD) were adequate to successfully accomplish the job that needed to be done.

The study did not collect or analyze information on the relationship between PHA administrative expenditures and the success rates of households that initially obtained certificates or vouchers, or examine what proportion of these households actually succeeded in obtaining housing and using their certificates or vouchers. Such success rates have been shown in previous studies to be significantly related to the administrative efforts made to assist such households.

The study did not differentiate among the different levels of administrative costs involved in serving different client groups: large, medium or small households; families vs. the elderly; or minority vs.

non-minority households (minorities often have greater difficulty finding suitable housing because of discrimination). The administrative costs for these different categories of recipients are likely to be significantly different.

The study did not analyze whether the clients being served under the Demonstration programs fairly represented the characteristics of the "need groups" in the community. Without such analysis, it is not possible to tell whether or not the households that enrolled in these programs were "skimmed", i.e. may have over-represented those households that were easiest to deal with, such as elderly households that stayed in place. If such skimming did in fact frequently occur, it would mean a significant skewing of the results, since the costs of housing the more difficult-to-house households would have been seriously under-represented.

The study did not evaluate administrative results with regard to whether or not programs were being carried out within planned timetables, or whether higher administrative expenditures might have speeded up such implementation.

The study also did not examine the context in which such programs were being carried out, e.g.:

- o local housing market conditions (and vacancy rates); and,
- o the characteristics of the administering agency, (size of the agency, or its past record and experience in administering Section 8 programs).

The study was flawed by its lack of maturity. The absence of a significant number of long term tenants made the study an inadequate predictor of ongoing program costs.

The study itself states that a major reason why there were virtually no significant differences between the costs of the two programs is that: (a) HUD has issued directives to the PHAs making the administrative procedures for vouchers almost identical to those for Section 8 "certificates," at least initially; and (b) a substantial amount of the overhead costs are "allocated" based upon the numbers of units involved, which automatically makes these costs the same for vouchers and certificates.

As a result of all of the above factors, this study produced only trivial results which are unusable for drawing programmatic conclusions. Valuable and scarce research money was wasted.

Notwithstanding all of the above, and in spite of all of the caveats to the contrary contained within the report itself, HUD has used this report in its Congressional relations, misleadingly and wrongfully claiming that the report backs up HUD's claim that the administrative fees for the Section 8 certificate and voucher programs are "too high".

Nothing in this report justifies such a conclusion.

It would be equally valid to assert that the PHAs with higher administrative costs, the ones that were spending as much or more than the HUD reimbursements, were the only PHAs that were doing the job right!

As a result, this study is virtually useless and seriously misleading.

A report on administrative fees was mandated by the Congress. The purpose of this mandate was clearly so that the Congress could learn whether Section 8 voucher and certificate fees were adequate or inadequate to administer these programs and make them successful.

The Abt study does not do this, and should not be considered a fulfillment of the Congressional mandate.

CLPHA Response: Abt Study on Section 8 Admin. Fees

1. Stated Purpose of the Abt Report.

The report states that "The purpose of this report is to estimate and compare the administrative costs of operating the Housing Voucher and Certificate Programs."

When Congress directed HUD to carry out a study of Section 8 certificate and voucher administrative fees, Congress intended that HUD should evaluate the adequacy of such fees for the Section 8 and voucher programs.

HUD and Abt Associates Inc. have failed to fulfill the intent of Congress in this regard.

Instead, this study focuses its attention on simplistic tabulations of how much money the PHAs actually spent, without any relationship to:

- o the adequacy of the services provided;
- o the characteristics of the client groups being served (e.g. race, income or family size);
- o whether or not the households moved (a major factor in the amount of assistance that would have been provided by the administering agency);
- o the characteristics of the local housing markets in which the programs were operating; or
- o the success rates of those to whom vouchers or certificates were issued.

The study also wasted time and effort on what it congratulates itself upon as being "powerful" statistical analyses, to determine if there were any substantial differences between the administrative expenditures for vouchers vs. certificates.

The analysis concluded that there were no significant differences in the costs of the two programs. Since most agencies administered these two programs out of the same office, however, it is not surprising that the agencies reported their expenditures on each to be roughly the same.

In most PHAs, vouchers were being administered out of the same office administering the Section 8 "certificate" program, as a small marginal increment to those programs. Under these conditions, it is not likely that any major differences would occur. This does not provide an adequate setting for determining whether or not the administrative costs between the two programs would be the same or different in the longer term, if the two programs were fully established and compared.

2. Definition of costs studied.

According to the report, the following is the definition of the costs studied.

"The estimated costs reported here represent the total costs incurred by PHAs in administering the Housing Voucher and Certificate Programs (apart from the amounts paid to landlords). Thus, they include not only the immediate wage and salary costs of program staff, but also all of the supervisory, overhead, fringe benefit, and non-labor costs associated with program administration. Information on these costs was taken from the Demonstration PHAs' operating records and accounts, from records of administrative activities collected for Demonstration households, and from special records of PHA staff time collected for this study. The resulting estimates are estimates of the costs actually incurred by PHAs.

No attempt is made to assess either the adequacy or efficiency of the PHA administrative services funded by these costs." (Emphasis added)

Although Abt and HUD included this disclaimer in their report, the effect of this disclaimer is virtually to say that this report has little if any meaning or significance. The obvious next question is: then why do such a study? What's the point or the use? Why wasn't a more meaningful study done?

3. Types of costs considered.

The report states that:

"Two types of administrative costs were considered. The first, and most important, are the continuing costs required to maintain a Housing Voucher or Certificate recipient for one year. The second are the initial intake costs involved in starting up a new Housing Voucher or Certificate recipient slot. These are less important than continuing costs because they are only incurred once, when an additional slot is added to a PHA's allocation. Initial intake costs would typically be expected to be amortized over fifteen years or more."

Characterizing ongoing costs as "important" and intake costs as "less important" is incorrect, unless the point here is simply that ongoing costs are greater than intake costs.

The initial costs of intake (including possibly helping a recipient to move) are obviously very important, since whether or not the recipient household succeeds in using its certificate or voucher is key to the program. Only if a household is initially successful in obtaining housing will it be around to incur "continuing costs".

The concept of "amortizing" initial intake costs, which appears here (and nowhere else), is a case of the wrong word in the wrong place. "Amortizing" generally refers to reduction in debt, and there is no indication that the report intends that PHAs should borrow to cover their intake costs. The only context in which use of this term might make some sense is if the report is intending to say that HUD gives the PHAs too little money to cover their actual intake costs, but too much money for their ongoing costs, so the shortfall in the former is eventually covered by the excess in the latter. The report disclaims any intent, however, to judge whether PHAs are in fact getting "too much" or "too little" money.

Even accepting the assumptions of the report, the shortfall in the intake costs could only be paid for "out of pocket," in the short run, by a PHA that was administering a substantial on-going program.

4. Sample.

"(The study) is based on estimates of administrative activities and costs for a sample of some 5,000 Housing Voucher and Certificate participants and 1,400 recipients in thirteen to sixteen of the larger urban Public Housing Agencies (PHAs) included in the Freestanding Housing Voucher Demonstration."

Because the sample is skewed to large urban PHAs, it is likely that virtually all of these PHAs would had substantial on-going Section 8 programs already, and that therefore their voucher operations would be considered to be a small add-on to their existing operations. Again, this is likely to mean that the costs of administering vouchers would appear to be about the same as for certificates.

5. Items that might cause a difference between the administrative costs of Section 8 certificates and vouchers.

The study alleges that there are only two possible sources of differences between administrative costs of certificates and vouchers: (a) the activities themselves; and (b) frequency of activities.

The report then claims that, because of directions to the PHAs from HUD, there are only two activities which vary between the programs:

(a) under the certificate program, PHAs must determine rent reasonableness and sometimes negotiate with landlords over rent levels; and,

(b) under the voucher program, PHAs must periodically review payments standards and budgets.

The report then states that PHAs were prohibited from the latter (periodical review of payments standards and budgets) by the terms of the Demonstration, so that was not a factor in the cost analysis.

It is not clear to what extent "determination of rent reasonableness and negotiation with landlords" is a significant activity, based upon the report, except that the report appears to rule it out as being significant, early on. On page 12, the report says that "because the two programs differed only in the frequency of activities," costs were estimated based upon timesheet data and activity counts. It appears that "rent reasonableness test" activities were being carried out only by a few PHAs. This is another case where PHAs with higher administrative expenditures, in this instance the ones which were attempting to carry out an important function -- the rent reasonableness test, were the atypical case; whereas this activity should be carried out by more PHAs, not less.

On page 14, the report says "it seems doubtful that (the costs of periodically reviewing payments standards and budgets, if they had been included) would be significant enough to affect the results."

In other words, HUD and the consultants have defined away most of the potential sources of difference between the costs of administering vouchers and certificates, before the data was collected, so it's not surprising that the study supports their predetermined conclusions.

CLPHA strongly disagrees with these assertions. In contrast, CLPHA believes that the costs of periodically reviewing payments standards and budgets are likely to be substantial. Many PHAs that CLPHA has contacted also say that they spend more time counseling voucher recipients than certificate recipients, since the former are supposed to go out into the market and "shop" for their own housing.

negotiate on their own with respect to rent level, etc. Since more education and counseling time is needed with voucher recipients, training sessions must be smaller and more staff time is frequently needed.

Because of all of the exclusions and simplifying assumptions that HUD and Abl have managed to make for purposes of the study, those who carried out the study were able to focus their activities on the collection of data on "frequency of activities per case in each program". (p 12)

It is hard to understand, however, how any adequate estimates could be made for the frequency of continuing activities, beyond the first year of the program, since the study basically was limited to gathering information on the first year of the program. Households, for example, would be much less likely to move a second or third time during that year than they would subsequently.

This has a particularly important impact in terms of the Abl study's comparisons of "costs" versus "reimbursements of administrative costs by HUD." The study concedes that "reimbursements for initial intake costs are well below actual costs" for both certificates and vouchers. It is only in the area of "continuing costs," where the study has virtually no good data from the Demonstration to use as the basis for such costs, that the study says HUD's reimbursements for continuing costs are greater than actual costs (read 'Abl's estimated costs').

6. Overhead costs, labor and non-labor.

In determining what are considered to be "costs" to the Section 8 certificate and voucher programs, the consultant undertook to develop an elaborate and complex procedure for allocating certain proportions of the PHAs' costs to the Section 8 program.

The methodology for making such allocations is nearly incomprehensible; and therefore it is not at all clear to what extent a realistic level of overhead costs,

labor and non-labor, were allocated to the program.

The PHAs themselves appear not to have been consulted in developing these allocations or given a chance to comment upon them.

7. Time estimates per case (direct casework labor costs of performing an activity once).

The time estimates used in the study are shown in Table 3.6. Among the estimates are:

Intake activities	Average Number of Hours
Application taking and processing	0.59
Selection	0.22
Eligibility determination	1.39
Inspection	1.32
Supportive services	1.00

Taking these out to two decimal places, i.e. hundredths of hours, gives an absurd impression of precision. (One hundredth of an hour is less than a minute!)

It is also absurd to assert that the average time for the complete taking and processing of an application for a Section 8 certificate or voucher is 0.59 hours, i.e. 38 minutes. Setting such a time obviously did not involve any on-site observation of a PHA Section 8 application office on a day when it is open and doing business.

8. Movers vs. Non-Movers.

The question of variations in administrative costs between movers and non-movers is not seriously addressed. For households that move, the success of their move (and the cost of finding a suitable

housing unit) can be greatly affected by variables such as:

- (a) vacancy rates in the area of housing search;
- (b) the relationship of the rents of vacant available units (in the area of housing search) to the Fair Market Rent (in the case of "certificates") and to the recipient's income;
- (c) size of household;
- (d) income of household (and source of income); and,
- (e) race of household.

A household, for example, which is a large minority household, very low income, whose primary source of income is AFDC, and is living in a substandard housing unit before it receives a Section 8 "certificate", will have to move in order to be eligible for such a certificate. It will be extremely difficult for that household to obtain a suitable unit if the local housing market is tight.

On the other hand, an elderly household consisting of one or two persons who already live in a unit meeting program standards will have very no difficulty in using their certificate or voucher, and will need no assistance from the PHA in finding a unit.

In the former case, the PHA should provide an extensive amount of assistance to the household in its search efforts: counseling; perhaps transportation and day care assistance during the search; information and referrals; and possibly even civil rights counseling. These all are costly. In the latter case, fewer services would need to be provided, and the cost to the PHA would be much lower.

9. Quality of administrative services delivered.

The report acknowledges that its data does not cover the quality of the administrative services

CLPHA Response: Abl Study on Section 8 Admin. Fees.

delivered.

However, without such information, it is impossible to assume that the costs of the programs will be similar, per function, as the report does.

For example, spending additional PHA funds on pursuing fraud, waste and abuse shows up as an increased program cost, but there is no way to estimate the savings as a program benefit.

10. Fragility of statistics.

Wide disparities in costs between large PHAs are hidden by the use of means or averages, bringing into question the applicability of the findings.

The fragility of the statistics in this study, which is based upon a very small sample of PHAs, is illustrated by a case cited on page 62, in which one PHA had extremely high application processing and eligibility determination costs. The Abl study states that if this PHA is removed from the analysis, issuance costs decrease, on the average, from \$119 to \$57.

So what does the study do? In the tables on page 223-225, this high cost intake site is simply excluded, on the grounds that it must be "too high," therefore producing lower average costs, which the study says are more characteristic of the "typical" authority. But perhaps that high-cost site was the one doing the best job (or keeping the best figures)!

11. Lack of information on PHA reserves.

The theoretical nature of this study is also highlighted by the total absence of data on PHA reserve levels, and whether or not they are increasing or decreasing under the program. This would be a limited indication of the adequacy of administrative fees.

12. A final comment.

The study suggests that the actual "continuing costs" of administering the Section 8 program (certificates or vouchers) may be somewhat less than reimbursements, while actual "intake costs" are probably much higher than the reimbursements.

Even assuming, for the sake of argument, that there may be some imbalance here, then consideration should be given to shifting the fees in the direction of reducing on-going administrative fees slightly and increasing administrative fees at the time of intake and whenever a household has to move, especially those households which are most difficult to house.

Attached:

Memo from the Leased Housing Division of the Boston Housing Authority, August 3, 1988, commenting on the Abt study.

File: SEC8-VOUNFEE-ABT.COMMENTS

An Analysis of

Abt Associate's Report

Administrative Costs of the Housing Voucher

and Certificate Programs

Leased Housing Division
Boston Housing Authority
52 Chauncy Street
Boston, MA 02111
451-1250

August 3, 1988

Abt's Study of Administrative Costs, page 2

Introduction

The findings of the Abt Associates Study, "Administrative Costs of the Housing Voucher and Certificate Programs," are not conclusive, and therefore do not provide a satisfactory basis for legislative action on reimbursement for administrative costs.

This inconclusiveness is the product of several identifiable problems (discussed in more detail below):

1. The sample may be flawed by its lack of maturity. The absence of a significant number of long term tenants makes the Study an inadequate predictor of ongoing program maintenance costs.
2. The sample is geographically skewed by largely excluding the high rent, tight market Northeast, where administrative costs are likely to be the highest.
3. Wide disparities in costs between large PHAs are hidden by the use of means or averages, bringing into question the applicability of the findings.
4. Rural, regional, small, and moderate-sized PHAs, whose costs may differ significantly from large PHAs, are excluded from this study.
5. The estimates of mobility and turnover rates are speculative, and probably too low, therefore underestimating ongoing administrative costs.
6. The methodology for allocating overhead and non-labor costs is problematic, and may well produce an inaccurate estimate of costs.
7. Only the costs actually incurred were examined, obscuring the fact that every PHA, to a greater or lesser extent, has unmet client needs due to financial constraints. An ideal program would fund these needs and therefore cost more.
8. The difficulty of collecting data and the limits and possible inaccuracy of PHAs reporting reduces the reliability of the data.

In addition to these problems with the data, Abt does not recognize that PHAs must have an operating reserve. They therefore assume that every dollar received should be spent on immediate program administrative costs.

General Comments

Before examining these problems in detail, Abt's misleading description in the "Introduction" of the Voucher Program and its likely benefits or advantages must be addressed. The Study describes differences between the two programs, arguing that in the Voucher program, "absence of restrictions on rent...offers recipients greater flexibility and responsibility in selecting units and neighborhoods" and gives them an incentive to find less expensive units absent from the Certificate program. It concludes that "these differences between the programs could be expected to affect the success of program applicants in becoming recipients, the type and quality of housing obtained by recipients, and both recipient and program costs (pages 8 & 9)."

This is a leading statement which distorts the truth by implicitly attributing false advantages to the Voucher program. The demonstration results to date have refuted each of them:

1. The success of applicants in both programs in becoming recipients (i.e., in finding approvable housing) is identical;
2. There is no evidence that Voucher-holders are leasing better housing (in fact the anecdotal evidence from participating PHAs is that Voucher-holders are leasing the same quality units, in the same neighborhoods, and with the same owners as Certificate-holders);
3. Administrative costs have been shown to be equal in both programs and Voucher subsidy costs are somewhat higher.

Further, it is likely that the Voucher program would be more expensive than the Certificate program, if it were properly designed. The program needs a requirement that the rents be reasonable and comparable to those of similar units (one of the two activities in which the programs now differ). It is needed to avoid the payment of scandalous rents which hurt tenants -- by increasing the likelihood of eventual eviction, for one thing -- and unnecessarily increase the amount of subsidy paid. The program also needs more extensive counselling of clients, especially to explain the variable subsidy and to examine their ability to pay. If these needed services were added to the periodic review of Payment Standards and budgets and other

Abt's Study of Administrative Costs, page 4

cost control measures not required by the Certificate program, the Voucher program would cost significantly more to administer than the Certificate program. (Abt in fact admits to being unable to determine, and therefore to excluding from the Study, the costs of reviewing Payment Standards and of the cost control measures; see page 110, footnote 1.)

Immature and Geographically Skewed Sample

It is totally unclear what the sample size was or how it was selected. Since it is unclear whether the sample includes significant numbers of non-demonstration units, it is equally unclear whether the study truly measured the activities of mature programs. It would appear that the comparative analysis should have been deferred until a significant number of Voucher units had been under lease for two to three years and full geographic representation had been assured.

On the first page of the study the sample size is identified as "5000 Housing Voucher and Certificate participants and 1,400 recipients in thirteen to sixteen of the larger urban PHAs." Table 1.1 (Page 13) seems to support this statement, but Page 12 Abt says that information was collected on "all of a PHA's Certificate and Housing Voucher operations, regardless of whether the slots involved were among the 8000 followed in the demonstration", concluding that this assured that the activities recorded reflected a "mature program." Table A.3 (Page 113) presents yet another set of figures on sample size. Finally, Abt states that "the large urban PHAs (excluding Los Angeles) have roughly 275,000 Section 8 units" (p. 72). If this figure refers to the 16 PHAs in the demonstration it seems very high. Assuming that case processing is evenly spread throughout a year, two months worth of activity would reflect nearly 46,000 units, far greater than any sample size discussed above.

Further, the methodology sections Abt describes the use of Voucher demo reporting forms to collect or check certain data. If the survey was of all cases processed during a two month period, how could it rely in some cases on demo reports and in other cases not?

To further confuse the situation regarding sample size and selection, they eliminate three PHAs because their sample sizes (of participants who had been in the program at least a year) were inadequate. And yet each of these PHAs (Boston, New Haven, and Atlanta) had mature operations where hundreds of non-demonstration cases would have been processed over a two month period.

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Abt does indeed confess that the "loss of the three additional sites for calculation of continuing administrative costs is more problematic" (P.13). They implemented a weighting system to compensate for the loss of the sites and admit that this procedure "cannot be guaranteed to provide unbiased estimates for all large urban PHAs" (p. 13). Upon closer examination of Appendix A (Tables A.4 and A.5) it is clear that the omission of the three sites creates significant gaps.

New England is totally left out with the elimination of Boston and New Haven; worse, there is only one PHA in the entire Northeast other than New York City, which is self-representing and certainly a somewhat unique case. The weighting of Pittsburgh's costs to compensate for the loss of Boston and the similar weighting of Montgomery County, Maryland for New Haven is absurd, because of the glaring differences in the housing markets and economies in the two cities. HUD's own figures highlight the mismatch: Boston's proposed two bedroom FMR (effective October 1, 1988) is \$803, while Pittsburgh's is \$436. Likewise, the weighting of Pinellas County, Florida to account for the elimination of Atlanta seems suspect (their two bedroom FMRs are \$440 and \$529 respectively). Abt concludes that they "cannot, of course, guarantee that this assignment is correct" (p. 114).

Abt summarizes that

The sample used in this analysis provides a fairly powerful tool for computing the administrative costs of the Housing Voucher and Housing Certificate Programs in terms of the initial intake costs associated with intake and at least the first year of continuing activities (emphasis added p. 15).

They make no claims about the usefulness of the sample in later years.

Differences Across PHAs

In the "Executive Summary" Abt states that continuing and initial intake costs "vary significantly across PHAs" (p. 5). Their use of mean or average figures to reflect prototypical program costs supports the determination of administrative fees which do not accurately reflect PHA's costs, and seriously underfund some PHAs in high cost areas. Later on, in fact, Abt states that

variation in costs across PHAs suggests that it may be useful to pursue analyses of the sources of variation to determine whether these reflect more or less

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efficient administrative practices or differences in the operating environment. This in turn reflects on the potential need to vary reimbursement formulas to take account of PHA specific factors (P.43).

Later, Abt repeats its suggestion that HUD consider differing reimbursement rates "to the extent that PHA costs vary for reasons outside of the PHA's control" (P.74). (One example of this is Boston's fringe benefits, which at 47.2 percent were significantly higher than the next highest sample PHA's 36.0 percent. This is no doubt due to the extremely high cost of the Massachusetts retirement system.)

Abt concludes that

administrative costs may be expected to vary across PHAs as a result of differences in success rates, turnover rates, wages, PHA organizational structures and procedures, and jurisdictional characteristics. Both the small number of PHAs included in the Demonstration and the scope of this analysis preclude any attempt to sort out these myriad factors (p. 74).

It should also be remembered that the Abt study is absolutely silent concerning administrative costs in rural, regional, small, and moderate-sized PHAs. Certainly a much more comprehensive analysis is required before one talks of making major revisions to the fee.

Low Estimates of Turnover and Mobility Rates

Because Abt's estimates of client turnover, mobility, and termination are projected from the first year of participation, they are probably too low and therefore underestimate administrative costs for these activities. Abt's lack of confidence in the data alone raises serious concerns.

Abt says inconclusively, for example, that after the first year participants may "move more or less often, or show higher or lower turnover rates" (p. 14). They call first year turnover rates "fairly typical" of prior PHA experience (p. 14, footnote). Abt admits that turnover rates, approximately 13 percent for each program, could understate rates for later years and conclude that "in this case, our estimates of continuing costs would underestimate actual annual costs" (p. 62). On mobility rates, they say that there is no difference in first year mobility rates (p. 64), though it seems far too early to assess how often Voucher participants will move. On termination rates, Abt

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speculates that "the number of terminations that may have occurred is likely to be negligible" and that "the number of Housing Voucher Families that may have moved was again very small" (p. 144).

Since relocation, termination, and leasing of replacement tenants are some of the more expensive activities associated with these programs, it is not comforting to observe Abt's indecisiveness as to the reliability of the first year figures when projected into later years.

Problematic Allocation of Overhead and Non-Labor Costs

A major problem with the Study, as Abt admits, is that overhead and non-labor cost allocations "are admittedly judgemental" (P.100).

Abt says that they relied on interviews with local PHA officials to determine these costs. However, PHAs have never been required and have no need to precisely define and attribute costs to the Certificate and Voucher programs. Since PHAs were never required to allocate precisely, their estimates are unlikely to be sufficiently accurate. Our own experience was that Abt's interviews were informal and not deeply probing.

Unmet Client Needs

All PHAs have areas of program weakness where they would like to initiate new services or expand existing services. Thus an analysis of actual PHA expenditures does not reflect the costs for an adequately responsive program. In Boston, for example, significant and needed additions were made in the areas of rent reasonableness, rent negotiations, support services, etc. after the Abt data collection was complete. These represent major qualitative improvements in the program operations at a significant increase in costs.

As Abt observes,

the cost estimates reported here are based on actual PHA costs and are in no sense normative. They reflect the costs that are actually observed and should therefore reflect the levels of services and efficiency actually obtained by the Section 8 Existing Housing program. They neither assess the efficiency of current practices nor the desirability of higher or lower levels of administrative services. (p. 14)

Data Collection Difficulties

The difficulties involved in collecting the data casts serious doubts on its accuracy.

First, the precise reporting of time spent on each program that an accurate study requires is not an activity PHA employees are likely to do well, given the demands and pressures of their work. For example, Abt estimated that intake support services were underestimated by a factor of 3.75 and ongoing support services by a factor of 11.09 (p. 60). In another example, Abt in fact determined that rent reasonableness and rent negotiation costs "were unreasonably large" and decided to reduce the reported figures (p. 146, footnote 1).

Second, as discussed earlier, PHA's estimates of non-labor and overhead costs allocated to each program are unlikely to be sufficiently accurate. To do so requires a fine breakdown of a complex and intertwined operation into components (i.e., the two programs) which the PHAs have no normal reason for distinguishing.

Third, even if these self-reports were reliable, there is a great difficulty in aggregating a vast amount of information from different and diverse sources. As Abt notes, "Because PHA procedures [and, we would add, staffing] differ, the definitions of activities and product count items had to be tailored to each PHA" (p. 142).

Finally, Abt expressed reservations about the accuracy of the self-reporting. They reported that one PHA had intake costs twice those of the next highest PHA and four times the median, and wondered whether these data were "either in error or represent some pathological set of conditions that should be discounted in characterizing total national costs for large urban PHAs." Abt further wondered "whether other information is needed to provide an adequate indication of normal intake costs" (p. 81).

Need for Operating Reserves

Like the General Accounting Office, in its studies of administrative fees Abt fails to recognize that PHAs must have some operating reserve. It is not prudent business practice to spend every dollar which comes in, as surpluses need to be applied to future deficits. All properly administered PHAs have a need for a significant reserve account, both for the efficient operation of their leased

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housing operations and to provide flexibility in their public housing operations.

An advantage of the Section 8 Existing fee structure is that it is both simple to calculate and had built in performance incentives (the more units you lease the higher fees you earn). It was and is the PHA's only unrestricted administrative fund. Abt notes that

over and under reimbursements in the Housing Voucher or Certificate Programs are presumably offset by spending and reimbursements in other programs. PHAs are not profit-making businesses. If a PHA's reimbursements exceed its costs in one program, then the funds will be spent on other programs. Similarly, under reimbursements in one program must be funded from over reimbursements in other programs. Ultimately, HUD must determine reimbursements not simply in terms of costs (since total PHA costs for all programs necessarily equal total PHA reimbursements from all sources), but also in terms of the level of administrative services desired. (p. 73)

Abt notes further that

in comparing costs with reimbursements we have not attempted to determine how PHAs deal with surpluses or deficits. Since PHAs are non-profit entities and usually have few sources of funds outside of HUD, surpluses are presumably generally used to support other HUD programs, while deficits will be paid for from funding for other programs (p. 14).

Senator CRANSTON. Thank you very, very much.

Mr. Carter and Mr. Stegman, I am going to pass over you momentarily because Senator Sanford wanted to be here to introduce you both and tell us how great you are before you speak. So we will wait for that and go on to Ella Thompson, who is cochair of the William Penn Homes Tenant Association of Chester, PA.

We welcome you.

**STATEMENT OF ELLA THOMPSON, COCHAIR, WILLIAM PENN
HOMES TENANT ASSOCIATION, CHESTER, PA**

Ms. THOMPSON. Thank you.

I am here on behalf of William Penn Tenant Association and public housing in general. Our problem is that we are facing demolition in our area, and the biggest thing is that we feel like we should preserve the existing public housing that we have because this is only affordable housing for low income people.

We also feel about using section 8—the section 8 program currently is at 15-year term. We feel that the 5-year term would be something that we could not go along with because of the fact that it would limit—put a limitation on the number of housing units available for people to live in by limiting it to 5 years. The 15-year one is—well, it is adequate, but you could never find section 8 properties anyway to move into in the first place. So 5 years is just putting too much limitation on things.

We also would like to address the 30-percent income. Currently, people living in public housing are being asked to pay 30 percent of their income, but they are not only being asked to pay 30 percent of their income. If one of the children have summer jobs or if you have a kid that is getting social security because the parent died or something, you also have to pay 30 percent of those people's income. This puts another burden on the household because while we want our children to be responsible individuals, we also have to think of the whole household surviving as a unit, and survival as a unit depends on having the money to buy just the bare necessities, and these things aren't being met because of the fact that we are taking money away from the children.

This also adds to your drug problem. If kids make money and you take it away from them, you cannot expect them not to go out and find another means of making money.

So those are some of the things that we are involved in.

And the replacement units. Like I said, we are facing demolition, and our demolition is geared to—when we asked for relocation, we wanted to find out about relocation, relocation and replacement are two things, are in the same pot. Instead of doing that, we would like to see that—that section 8 is not used for replacement of units. We need to build more units or use existing housing that people do not live in as a means of replacing units because we still—like I said before, we can't get rid of the public housing that we already have.

And also in the demolition area, instead of demolishing homes, why not put these homes to good use and rehabilitate them and use them for the homeless, not using them as a dumping ground for the homeless but also to have help there to help the homeless

with their problems, like counseling and those kind of things. We need supportive services in public housing.

Finally, in the end all we have to preserve public housing at its current level at least.

[The complete prepared statement of Ella Thompson follows:]

STATEMENT OF ELLA THOMPSON BEFORE THE SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
JUNE 16, 1989

INTRODUCTION

I am Ella Thompson. A resident of the Wm. Penn Homes, a public housing complex in Chester Pennsylvania. HUD has recently approved an application for partial demolition which will eliminate 100 of the 300 apartment units there. My testimony is brief. It will address Sections of Title IV of the Cranston - D'Amato Bill ; Affordable Rental Housing and Title VI ; Public Housing. Each contain sections which I feel will have a negative impact on preserving the supply of public housing.

TITLE IV: AFFORDABLE RENTAL HOUSING

. Preservation - We the members of the Wm. Penn Tenant Association support the establishment of a new Office of Affordable Housing Preservation. Public housing fills a critical gap in the U.S. housing market. In 1985 there were 8.1 million renter households earning below 50% of median income for renters in their state. However there are only 4.2 million rental units affordable to them., according to estimates by the Low Income Housing Information Service. Inflation, the loss of units through condo conversions, and deterioration have led to the loss of 500,000 low rent units per year. The 1986 tax reform legislation will make the rental housing crisis worse by removing tax incentives for housing. The working class, people on fixed incomes, and young householders will be hard pressed to afford private rents without laws to stop and slow the momentum of these trends. (Public Housing Today, Council of Large Public Housing Agencies 1988, P. 9)

. Rental Assistance - The bill calls for the allocation of rental credit by formula to states that participate in the Housing Opportunity Program. Low income residents in states not participating in HOP will lose subsidized housing units. We object to this provision of the bill because it will contribute to the trend towards loss of low income housing units.

. 5 Year contract term - We object to the 5 year contract term for rental assistance. We want Congress to maintain the existing 5 year term for Section 8 Certificates. By changing to 5 year terms the availability of funds for rental assistance will be too subject to the changing availability of funds in the federal budget and changing budget priorities.

. 30% provision - We feel that the percentage of adjusted income paid for housing should be adjusted to 30% of the head(s) of household listed on the lease. At present we are forced to pay 30% of the gross household income. This creates situations where the incomes of children in summer jobs or part time work after school hours must be included in rental payment determinations. This unfairly taxes children for being residents of public housing. While we believe in teaching our kids responsibility for maintaining the household, this is not fair. It also results in rental payments of \$600 - \$900 a month for public housing units. These funds are potential savings towards the purchase of a home or the opportunity to purchase housing in the open market.

. Use of rental credit payments as replacement for sold or demolished public housing units. - We strongly object to this piece of the bill. We believe that the existing stock of public housing should be maintained. Low income blacks, other minorities, and families with children face tremendous odds in finding units in the open market. Compare public housing with the existing Section 8 program. In the Certificate program minority families, particularly those with children suffer much higher failure rates than whites. The proportion failing to find housing in the required 60 day limit fail to find housing at rates as high as 75%. Public housing does not discriminate against low income, large and minority families. Public housing does not discriminate against single parent families both of these comprise a majority of families in public housing.

For the homeless - Insure that the Office of Affordable Housing Preservation gives the homeless priority for occupancy of units which are slated for sale or demolition where there are large populations of homeless people. In Chester, Pennsylvania estimates of homelessness run as high as 400 people among a population of only 45,000 residents.

Meanwhile, the Wm. Penn housing project is determined to be capable of being rehabbed are slated for demolition. This is a useless waste of a valuable public resource and it creates senseless human suffering.

Title VI - Public Housing

Reauthorize CIAP and operating subsidies. - Reauthorization of CIAP and operating subsidies at the current levels will only continue the deterioration of public housing. Many, if not all PHA's are suffering from the lack of sufficient funds to meet regular maintenance needs. We would prefer that if the levels of public housing subsidies for maintenance cannot be raised that the use of CIAP monies be restricted to bringing public housing up to local housing code standards. We might consider one alternative use of CIAP and MROP funds - for the enhancement of lighting and other security measures. The rampant sale of drugs, and the violence associated with it have made these services necessities in public housing complexes such as Wm. Penn. The drug sales there are estimated to be as high as \$1 million per week.

OTHER

We feel that stronger provisions prohibiting the demolition and sale of public need to be incorporated into this bill. We are not certain how Congress would legislate increased mandatory monitoring of HUD activities, especially those which relate to the loss of subsidized housing. In many instances over the past 9 years HUD and the intent of statutes put into effect by congress are headed in opposite directions.

For example; 1988 amendments to the public housing law state very unambiguously that public housing should be demolished or sold as a last resort. However, HUD has permitted the demolition and sale of housing as a matter for local authorities to decide. The Center for Community Change has compiled a listing of instances where HUD regulations contradict the laws enacted by our Congress. We have included it for your examination.

Finally, we would appreciate your attention to requests that the Wm. Penn Tenant Association has included in a letter to Special Advisor on Public Housing, James Schiff. Among them is a request that HUD pay particular attention to monitoring mismanagement and possible theft of HUD monies in the City of Chester Pa.

Chester Pa is notorious for its corruption. In 1982 former Mayor Jack Nacrelli was tried and convicted of racketeering. A soon to be released Pa. Crime Commission report on Chester will document the ties between current public officials and organized crime. Two public officials, The Director of the Redevelopment Authority, and the Director of the Chester Housing Authority have both resigned without explanation after the completion of recent HUD audits. We have requested release of the audit findings, however we have gotten no cooperation from local HUD officials. We are forced to wait for Freedom of Information Act requests. In addition a local paper has just this week released a series of articles detailing contracts awarded for demolition without bids, excessive payments to section 8 landlords, proof of the failure to inspect section 8 units and passing units with multiple code violations. We know in our hearts that the more than \$7 million in CIAP funds since 1983 have never been spent as intended. Because of the failure to make needed improvements we are threatened with the loss of our homes. HUD has a responsibility to account to the American to disclose the theft of public monies.

We hope that Secretary Kemp will show the same vigilance in exposing theft and mismanagement on the local level as he does in the nation's capital. A copy of our requests of Mr Schiff are included with our testimony. Thank you.

Senator CRANSTON. I thank you very much for that testimony.

Let me say that we are very concerned about demolitions, and we will focus on that to some extent when we get to our question period with you.

Senator HEINZ. Mr. Chairman, I just wanted—

Senator CRANSTON. Certainly.

Senator HEINZ. May I just say I am glad that Ms. Thompson came down from Pennsylvania, my home State. She is from Chester, Pennsylvania, and I congratulate you on your election as Chair of the Tenants Council there, Ms. Thompson.

Ms. THOMPSON. Thank you.

Senator HEINZ. And your comments, although I am not a member of this subcommittee—and I thank the chairman for allowing me this momentary interruption—we will be working, as you know, on the Cranston-D'Amato bill.

Senator CRANSTON. I am glad you have its name straight. [Laughter.]

Senator HEINZ. It depends on who is here. [Laughter.]

We had those two 5,000-pound canaries listening very carefully, and I just wanted you to know that I am a cosponsor of their legislation and I will be working very closely with them, and I thank you for your testimony.

Ms. THOMPSON. All right. Thank you.

Senator CRANSTON. Thank you very much, Jack, and we appreciate your cosponsorship and your active involvement in the effort.

I now turn to Irene Johnson, executive director of the LeClaire Courts Resident Management Corporation of Chicago, who has already been lavishly introduced by Senator Alan Dixon.

STATEMENT OF IRENE JOHNSON, EXECUTIVE DIRECTOR, LE CLAIRE COURTS RESIDENT MANAGEMENT CORP., CHICAGO, IL

Ms. JOHNSON. Thank you very much, Mr. Chairman. Good morning. Thank you, Senator Cranston and Senator D'Amato and of course our Senator of Illinois, Senator Dixon, and to each of you listening. It is a pleasure and a privilege to come and share a live activity that is going on in LeClaire Courts.

We certainly praise God for his blessings through the many kinds of services that we have received in the process of doing this program.

I just want to briefly tell you a little bit about LeClaire Courts and give you the definition of resident management. We have heard conversations in regards to what resident management is all about, if it is in fact an opportunity to help preserve public housing.

We want to go on record to say that resident management is an alternative to an approach to save public housing or maintain or retain public housing. We understand and we do agree that it is not the panacea. We cannot solve all of the problems in every development, but it is an opportunity for residents living in a low income housing development who has chosen to be trained properly to understand what the laws and the regulations are and to identify responsibility of the tenant and the public housing administra-

tion and to address that by taking on our responsibilities to help maintain the property.

LeClaire Courts is a lo-rise public housing development containing 615 units, two-story walk-up townhouse type facility. We are located in Chicago on the Southwest Side at the Stevenson Expressway, 5 minutes north of Midway Airport.

It was built in 1950 and expanded in 1954. We have 315 units of section 8 certificate, city/State property. We have 300 units of Federal subsidized property. So we can look at both sides of the spectrum in terms of the funding source.

In 1983, the residents at LeClaire Courts came together for the purpose of maintaining and retaining our development. We felt that we were a distressed development. We had not had any modernization in 10 years in 1983, and so you can count those years added to 1989, and it was because of a lack of services from our public housing administration, a constant change in the management within a 2-year period where they could not get a full view of what was going on. We were prioritized out of modernization.

We have a lot of hi-rise developments in Chicago, and our buildings were allowed to completely deteriorate at that time, and so we felt as residents, because society looks on us as the real problem—we are part of the problem, but most certainly we are not all of the problem—and our buildings had deteriorated and we did not have security services in our community and the crime had increased.

That was also during the time the rent was changed from a set rent to a percentile rent. Many of our working people moved out because the rents were excessive.

So most certainly this bill addresses that also. We appreciate the fact that we are allowed to comment on that. We do recommend that the rent would be rolled back to 25 percent and put a ceiling on it. We feel that that would help us in the long run because the objective of the resident management program is, one, a vehicle or a tool that we use to better integrate ourselves into society in this way. Every community is concerned about decent housing, health, education, economic development, and safety. The resident management program is a tool where the residents at LeClaire Courts have set this particular activity in motion to address those kinds of things.

We looked at the law and what it says and looked at our public housing administration and the kind of funding they are receiving and so decided to take a role in helping maximize the dollar, and the approach we have taken is the one that the bill addresses about giving services through a cooperative partnership effort with the Clarence Darrow Community Center, which is a social agency located in LeClaire Courts. We have done a joint venture in terms of going to the private sector to seek funds to address these various problems.

So early in our development we did not have any kind of Government support. We had private foundation and corporations and this agency's support to address these kinds of issues. So we support that kind of provision in the bill that recommends that we look for something like that for other public housing.

We feel that no matter where you live, regardless of the area, your economic situation does play a part but we also think that the

human character and the standards of living play a great part. We feel like our public housing administration should push standards, and that is why the Resident Management Corporation went back on the books. We are making the approach of doing some tight screening. We feel like to address the problem of the mix that the bill talks about, we could use the screening process to enhance that, not necessarily setting a specific regulation on the law that says that you have to stay—give x amount of units to a certain income people. We know that economics is a real critical part of our society, but we believe that looking at the system—for example, welfare—if we address that and get people employed, even though they might not come up past the poverty level, there are very many people that have very good characters, have a desire and want to improve their lives in the community. And so we want to address that situation through the screening process, where you can choose people working at various levels or totally unemployed.

Also, I would like to state that we would like for this group to remember that we feel at LeClaire Courts that public housing is a community. In every development or particular location it is a community. It is home to us, where our neighbors and friends live, where we share and care about one another. We are concerned about our surroundings.

I would like to say to Mr. Cranston and his supporters that we support a commission to do a study on distressed public housing. We would like for you to consider more than just a building with elevators because LeClaire Courts is a lo-rise and we feel, you know, distressed. So we would like for you to have a commission to look at all of the sites and really make a true determination to see what is distressed, and we would appreciate that.

We also like that Project Independence kind of idea because that is the approach that we are taking. We need government support. We need other funding. We are very happy to say that we are being trained to look at the system on how the funds come in and how to maximize the dollar.

As we said earlier about—the income is real important, that we give some serious considerations to the amount of income that a person has to pay for rent. For an example, at LeClaire Courts we pay 30 percent of all income, which Ms. Thompson talked about, where if your young people work as well as the father or mother, all the income has to be turned in. At LeClaire we pay separate utilities. We pay direct to our utility companies the light and gas bill. So if you pay \$500 a month rent, you are talking about another 200, \$215 of utility costs. So that is an excessive amount of costs.

Just briefly, a little something about myself personally. I am a resident of LeClaire Courts. I have been in public housing 22 years. I am a mother of three sons. We raised three sons in public housing. They do not have records with the police. They are honorable young men. They finished high school. Two graduated from two major universities. One is in graduate school. The other one went to trade school and is now gainfully employed.

I bring that out to say that we chose to stay in LeClaire. My husband and I both are working people. We chose public housing to remain permanent housing for us because in the private sector we

could not find decent, safe, and sanitary housing at a minimal cost as we did in public housing.

The other thing is whereas we could have gone into the private sector and bought a home we would not have been able to send our sons to college. So we did a little prioritizing, as we have learned the great word, that we would put our children first to build citizens that would be productive, good productive, being part of the American dream, and so we chose to stay there.

I say that to say many other residents choose to do the same thing. So whereas most people think of public housing as the last resort, we do not think of it as the last resort. We are very thankful to have found a place where we could afford to pay the rent.

Thank you very much.

Senator CRANSTON. Thank you very, very much for that testimony. We appreciate it very much.

Senator Sanford has still been detained. So we will now proceed with the two of you from his State—first, Floyd Carter, executive director of the Raleigh Housing Authority, representing the Public Housing Authorities Directors Association.

We welcome you.

STATEMENT OF FLOYD CARTER, EXECUTIVE DIRECTOR, RALEIGH HOUSING AUTHORITY, RALEIGH, NC, ON BEHALF OF PUBLIC HOUSING AUTHORITIES DIRECTORS ASSOCIATION

Mr. CARTER. Thank you, Mr. Chairman.

I am representing the Public Housing Authorities Directors Association. We have membership in excess of a thousand public housing directors, from the very large housing authorities to the very small authorities.

PHADA appreciates the opportunity to present this statement on the National Affordable Housing Act, and we would like to thank you and your staff for all the work that you have done on this housing legislation.

We strongly believe that the time has come for new comprehensive housing legislation and that this bill represents a new commitment by the federal government to the area of affordable housing.

Having said that, we understand that public housing authorities cannot alone solve the country's housing problems. The State and local government must be involved with the private sector. However, we are concerned that there is a perception among many, and many here on Capitol Hill, that all public housing authorities are troubled or poorly managed. In reality, the overwhelming majority of PHAs, over 3,000 in this country, are well run, efficient, and share the trust of their local governments in formulating low income housing strategies.

We feel that this poor perception of PHA's has led, to some extent, to the abandonment of the PHA as a major provider of low income housing as represented in this bill. This bill's commitment to public housing must go beyond reauthorization of existing programs. The PHA's in many communities have been and are the primary developer of low income housing. We strongly believe that the expertise developed by PHA's should be utilized more in the proposed program.

Outside of title VI the term "public housing agency" is almost nonexistent in this legislation. In examining Title VI, there are a couple of issues, I think, that need to be addressed.

One obviously is the issue of physical improvement, and we are concerned that the public housing modernization program must be funded at a level that addresses the large backlog of needs, over 20 billion as documented by the HUD study. The integrity of the modernization funding must be maintained. The new programs for funding, such as lead base paint testing and abatement and anti-drug efforts, should not be continually added to this program without appropriate resources being made available.

Additionally, the funding process should be changed so that there can be good planning based on a known level of funding from year to year.

At my housing authority we have a 5-year plan. Our plan, in terms of resources is almost meaningless because we are on a year-to-year funding basis without any idea of how much funding we are going to receive. One year we receive \$5 million, and the next year we don't receive anything. It is extremely difficult, if not impossible, for housing authorities to plan under those kind of circumstances and to provide good management.

Moving on to the human services side, we applaud the committee's inclusion of Project Independence. The sad truth is that severe conditions in our housing developments have been created through policy decisions at the federal level. By that I mean, that over the last several years a number of charges have been instituted, such as the 30 percent of income cap. That in itself, as a single act, was not a problem. It did, however, drive many higher income people out of public housing.

In addition to that, in a separate issue, we reduced the deductions for these families, which also drove more of those people who were, in fact, the working poor out of public housing.

Additionally, we have placed a 50 percent of the median income restriction on people living in public housing. The resulting segmentations have, in essence, left us with the poorest of the poor, and largely single parent heads of households. We now need to address this problem with significant human services programs to provide, hopefully, some assistance for these people.

Too often, public housing authorities have been trying to cope with the problems of unemployment and illiteracy without the necessary resources. Many PHA's through programs such as Project Self-Sufficiency, which we are, in fact, a recipient of, and other local efforts, have shown that we can make a difference in the lives of our residents. I think that Ms. Thompson is a perfect example of what can be done as far as public housing residents are concerned.

When HUD has not provided resources, many PHAs have developed support services and programs in their own communities. This effort should be supported by HUD and the Congress and great care taken not to supplant or over-regulate the many creative and beneficial programs already in place. Rather, sufficient resources must be authorized to provide for the continuation of these very important services.

We are also recommending that a line item authorization for Project Independence be looked at. We would ask that you reassess

the adequacy of the proposed funding for Project Independence. It is obvious that the funds that have been made available are not sufficient to make a significant difference when you look at the 1.3 million housing units and resident families across the country.

We are uncertain whether a new Assistant Secretary is needed. We are concerned that local agencies may be faced with additional bureaucracy that would make our jobs more difficult than they already are.

The last area I want to address is the formula for distributing funds under the HOP program. The proposal to channel the funding through the states concerns us greatly. In most cases, the states have not been a major participant in housing. Even when they had the resources, the political will did not exist. The idea of sending local allocations through the state creates another level of bureaucracy in a system that is already cumbersome.

The CDBG distribution system appears to have worked well, and we would suggest that the process already exists for distributing funds.

In closing, I would just say that we want to work with you and the staff to create a true partnership to provide housing to those most in need. I do feel that I have mainly concentrated on Project Independence because the prior two speakers on public housing did an excellent job, and I support everything that they have said.

[The complete prepared statement of Floyd Carter follows:]

Statement by
Mr. Floyd Carter
Senior Vice-President

on behalf of

**The Public Housing Authorities Directors Association
PHADA**

on

S. 566 The National Affordable Housing Act

Presented to

Subcommittee on Housing and Urban Affairs
U.S. Senate Committee on Banking, Housing & Urban Affairs

Washington, DC
June 16, 1989

PHADA appreciates the opportunity to present this statement on S. 566, The National Affordable Housing Act, and would like to thank the Subcommittee for the interest that the staff has shown in working with us on this bill.

PHADA feels strongly that the time has come for new, comprehensive housing legislation. The Association believes that this bill has merit and represents a new commitment from the federal government in the area of affordable housing.

We are, however, hesitant to fully support this piece of legislation unless the Subcommittee takes into serious consideration the problems and suggestions presented in this testimony.

The Perception of Public Housing on Capitol Hill

PHADA understands that PHAs can not alone solve America's housing problems. However, our Association feels that there is a perception among many here on Capitol Hill that all PHAs are troubled or poorly managed. In reality, the overwhelming majority of PHAs are well run, efficient, and already share the trust of their local governments in formulating low income housing strategies.

The Association feels that this skewed perception has led to the abandonment of the PHA as the major provider of low income housing represented in this bill. Although some states and local governments have already acted on their interest in providing low income housing, many have shown that they do not have the interest or ability to provide such assistance. We are unaware of any aspect of the proposed HOME Corporation that could enable it to force compliance to the guidelines of this program.

A Stronger Commitment to Public Housing

This bill's commitment to public housing must go beyond reauthorization of existing programs. Public housing modernization, although covered in this bill, is funded at current levels. HUD studies show an unfunded backlog of modernization needs in the area of twenty billion dollars. As the Subcommittee is aware, PHAs have not even received full

modernization funding at current levels for the past three years.

We feel that the bill must make a stronger written commitment to the public housing program and ensure that public housing funds are not diverted further by the addition of eligible programs. The public housing system has been in existence for over fifty years and now is not the time to ignore our nation's 80 billion dollar investment in it.

We applaud the Subcommittee's inclusion of Project Independence. However, the Association requests that this important program receive a separate line-item authorization rather than incorporation elsewhere. For Project Retrofit, we suggest that money be provided for direct support services as well as living space modifications.

The Housing Opportunities Program

The Association's most pressing concern is our request that the Subcommittee reconsider its position on excluding PHAs from competition for Housing Opportunity Program funds. This is especially important given that new public housing construction is not authorized by this legislation. In many localities, the PHA is the sole designer and provider of low income housing strategies. PHAs have extensive experience in dealing with public and private administrators and the Association believes that PHAs, with a proven track record of successful projects, should be rewarded. To exclude them from this program could prove a waste of time, effort and funds. It will be extremely difficult for our Association to support this bill unless this crucial concern is addressed.

The Commission on Distressed Public Housing

The Association has reservations, too, about the creation of a National Commission on Severely Distressed Public Housing. While some PHAs do have problems with seriously deteriorating projects, we are wary of turning the crisis management of these projects over to a federal commission. All of these projects are already well known to HUD. PHAs that have not developed an effective plan to deal with the crisis do understand that it is their responsibility to do so. We think that this problem could be better dealt with through the judicious authorization of funds in existing programs and greater consultation from HUD.

The Rental Credit Program

We are also hesitant to come out in favor of a rental credit program administered by states and localities. Although the Association is very much in favor of the rental credit system, the problems associated with this form of administration are numerous. Local political pressures and the double counting of need between eligible states and localities will skew the allocation of credits. We feel that the current voucher and certificate programs have been successfully implemented and could continue to be effective under a streamlined rental credit program. Federal funds that will ultimately be used by local agencies should pass directly to those agencies, thus eliminating the funds and paperwork associated with another level of bureaucracy.

The Association would also suggest that you revise the program to include those who earn between 50 and 80 percent of the area median, the so-called "working poor." Because of the cutbacks in housing funds over the last eight years, this group is probably the most under-served in terms of affordable housing.

Lead-Based Paint

Because this is a comprehensive housing bill, we recommend that you address as many issues as possible. Although it is not our main concern, the Association suggests that the bill respond to the issue of lead-based paint testing and abatement. A mandate issued in 1987 stated that PHAs must test and abate all lead paint within the next five years. As the Subcommittee is aware, a study conducted by the National Institute of Building Sciences documents an enormous cost for this project.

It is our feeling that the five year time frame is wishful thinking at best. However, we urge the Subcommittee to include a line-item authorization for lead based testing and abatement. The Association would welcome the opportunity to submit further comment on this issue.

The members of the Public Housing Authority Directors Association thank the members and staff of the Subcommittee for the opportunity to present our concerns. The Association

remains available for further cooperation on this important piece of legislation.

Senator CRANSTON. Thank you very, very much.

We turn finally to Michael Stegman, Professor and Chairman, Department of City and Regional Planning, University of North Carolina, Chapel Hill.

We welcome you.

STATEMENT OF MICHAEL A. STEGMAN, PROFESSOR AND CHAIRMAN, DEPARTMENT OF CITY AND REGIONAL PLANNING, UNIVERSITY OF NORTH CAROLINA, CHAPEL HILL, NC

Mr. STEGMAN. Thank you, Mr. Chairman.

My name is Michael Stegman. I am professor and chairman of the Department of City and Regional Planning at UNC at Chapel Hill, where I have been teaching courses and conducting research on national housing policy and low-income housing programs for the past 23 years.

I have chaired a local public housing authority and from 1979 to 1981 I was Deputy Assistant Secretary for Research at HUD.

In 1987, I was awarded a 36-month contract by HUD in a competitive procurement to evaluate HUD's national public housing home ownership demonstration.

While my written remarks are directed to each of the four issues the Chairman requested panelists to address, in view of the time limit on my oral testimony, I will comment only on two of those issues; namely, the creation of a national commission and public housing home ownership.

Although just 27 percent of all public housing developments are hi-rise buildings and while only a subset of these terrible mistakes of the past provide inhumane living environments, by stereotyping all public housing they cast a long shadow over the entire program, and by implication over other federal housing assistance efforts as well.

I remind the subcommittee that the demolition of Pruitt-Igoe in St. Louis, which to many housing critics continues to dramatically symbolize the failures of public housing, took place 17 years ago. Despite the fact that the Congress wisely acted to virtually ban the construction of hi-rise projects for families in 1974 and that since then more than a half million new public housing units have been made available for occupancy, including scattered site single family dwellings, townhouses, garden apartments, and lo-rise buildings, the ghost of Pruitt-Igoe continues to haunt us.

Until we effectively deal with the problem of severely distressed projects which, according to best estimates, may include fewer than 15 percent of all public housing units across the country, the future of new low-income housing production will remain very much in doubt. The National Commission on Severely Distressed Public Housing can play an important role in developing bipartisan, cost-effective solutions to this very serious problem.

Mr. Chairman, in addressing the issue of the National Commission, you asked each witness to comment on the proposal's strengths and weaknesses. I believe that the purpose, mandate, and proposed composition of the Commission are all on target.

While I would disagree, some might argue that the very act of creating the Commission will bring undesirable publicity to the

public housing program at a time when more and more PHA's across the country are demonstrating their creative abilities to finance and create successful human scale housing developments, even in the absence of large amounts of federal development funds. Others might object to the notion of a federal commission dictating solutions to what they see as essentially local problems. Neither of these arguments are very compelling.

With regard to the first, the damage has already been done. For example, whenever the Wall Street Journal decides to editorialize about bloated domestic budgets or the universal failures of federal low income housing policies, it runs a story on the drug and crime problems in Cabarini Green or in some other public housing disaster.

With regard to the issue of federal intervention into local problems, I would emphasize that the Commission's job would be to identify workable strategies and to devise a national action plan to solve the problem, not to impose cookie cutter solutions on localities whose situations vary significantly one from another.

The fact is more than 20 years of relative inaction has demonstrated the absence of political will and capacity at all levels of government to deal effectively with this extraordinarily debilitating problem.

As I indicated in my introduction, I am currently under contract with HUD to evaluate its 17-city national public housing home ownership demonstration, which contrasts dramatically with the home ownership provisions and approaches to the sale of public housing that are embodied in Section 123 of the Housing and Community Development Act of 1987.

The demonstration is being carried out under section 5(h) of the Housing Act of 1937, as amended in 1974, under which HUD may authorize public housing authorities to sell units directly to individual tenants on such terms and conditions as HUD may determine.

While most of the demonstration programs are transferring to tenants fee simple interest in their single family dwellings, five of the 17 involve the sale of attached townhouse or multifamily units using cooperative or condominium form of ownership.

In addition to differences in building type and ownership interest, PHA sales programs vary by number of units to be sold, character of the neighborhoods in which their projects are located, extent to which the sales prices are subsidized, financing approaches utilized, the income group served, and the extent of resale restrictions on the units transferred.

To underscore the fact that there are two very different public housing sales programs underway, I would like the members to know that while the actual transfer of the Kenilworth Parkside Project to its resident management corporation under the provisions of section 123 is still a couple of years away, there is located right here in the Capitol Hill area of Washington, DC, Wylie Court Condominiums, a 28-unit, fully operational, fully functional public housing ownership development that was sold to the tenants nearly 2 years ago under HUD's national home ownership demonstration.

Unlike HUD's demonstration which provides for the direct sale of single and multifamily public housing units to individual families, section 123 provides for the sale of entire multifamily projects

to qualified resident management corporations, which are in turn authorized to resell individual units to tenants at an unspecified future date. In creating this vehicle for the transfer of whole projects, presumably the Congress believed that, at least with respect to multifamily sales, an extended period of proven self-management capacity should be a prerequisite for home ownership.

As currently written, section 123 pays far more attention to how experienced resident management entities can acquire their projects than it does to how and when individual public housing tenants can themselves become homeowners. In this sense, while HUD's housing home ownership demonstration is testing alternative models of homeownership, section 123 tests the efficacy of resident management corporations as either interim or long-term landlords.

Another major difference between HUD's demonstration and section 123 is that the latter requires replacement housing on a one-for-one basis but made no provisions for financing it while the HUD demonstration does not. HUD's rationale for neither requiring nor providing replacement housing is that units sold to tenants must continue to be occupied by low income families for at least five years or for an even longer period if the housing authority chooses to extend resale limitations.

When considering the broad issue of public housing home ownership, I would urge the subcommittee not to focus exclusively on section 123, but to also consider the problems and possibilities that are being identified in the diverse set of transfer arrangements now being tested in HUD's demonstrations. By tracking these sales programs, we in HUD are learning a great deal about how to design and implement effective sales programs and about buyer expectations, pricing, financing, counseling, training, and the self-governance of public housing cooperatives.

With respect to the chairman's specific question about possible modifications to section 123, in the short run at least, I would suggest that the Congress clarify its intent with regard to at least three issues:

First, does it matter how long a resident management corporation holds title to a project it acquires from a PHA before converting it and reselling individual units to low-income tenants? Is 5 years about right? Is 15 years too long?

Second, because some 123 projects will be renovated using HUD funds and sold to resident management corporations for a dollar, the acquiring RMC will have substantial equity to borrow against. Should the Congress limit such borrowings, either in terms of the amount of long-term debt the RMC can accumulate prior to its conversion to tenant ownership or restrict the purposes for which the debt is obtained?

Finally, was it the Congress' intent that RMC should be allocated project-based section 8 rental assistance to replace lost public housing, operating subsidies, in order to maintain the low-rent character of their projects during the extended periods in which they hold title to the property?

And if the answer to this question is "yes," should the level of rental assistance an RMC receives from HUD during this period be set at a level just sufficient to meet the operating needs of the

project or at a higher level to generate significant positive cash flows that can finance economic development programs and capitalize replacement reserves and sinking funds that will be needed once the RMC has converted the project into a tenant-owned cooperative?

Thank you, Mr. Chairman.

[The complete prepared statement of Michael A. Stegman follows:]

The Public Housing Provisions of The National Affordable Housing Act
(S. 565/566)

Testimony of

Michael A. Stegman
Professor and Chairman
Department of City and Regional Planning
University of North Carolina at Chapel Hill

Presented before
The Senate Housing Subcommittee
Washington, D.C.

June 16, 1989

Good Morning. My name is Michael Stegman. I am professor and chairman of the Department of City and Regional Planning at the University of North Carolina at Chapel Hill, where I have been teaching courses and conducting research on national housing policy and low-income housing programs for the past twenty-three years. I have chaired a local public housing authority, and from 1979 and January, 1981, I was Deputy Assistant Secretary for Research at HUD. My responsibilities at HUD included management of various public housing research and demonstration programs as well as the national housing allowance experiments. In 1987, my Department in Chapel Hill was awarded a thirty-six month contract by HUD in a competitive procurement to Evaluate HUD's national public housing homeownership demonstration. And, in April of this year, I received a grant from the Twentieth Century Fund to prepare a wide ranging analysis of public housing sales as part of our national housing policy.

I am pleased to have the opportunity to testify this morning on the public housing provisions of S. 565. Although they take up fewer than twenty-five pages of a 241 page housing bill, they are, nevertheless, significant. My remarks are directed at the four issues that today's witnesses were asked to address. These are the bill's provisions regarding new public housing development; the design of Project Independence; the creation of a National Commission on Severely Distressed Public Housing Projects; and, the sale of public housing as a means of increasing homeownership among the resident population.

Revisions to New Development/Major Reconstruction Program

It has been said that public housing is unpopular with everybody except those who live in it and those who are waiting to get in. Despite its seeming unpopularity, public housing accounts for around 5 percent of all rental housing in the nation; for as much as 15 percent of all rental housing in a number of central cities, and a much higher percentage of their low-rent stocks, and the demand continues to grow each year. While the average wait for public housing nationally is around 13 months, for 9 percent of all PHAs the average exceeds 3 years, and in many cities it is much longer than that; 7 years in Atlantic City, New Jersey; 5 years in Winston Salem, North Carolina, and 10 years in Jersey City. In short, especially for low-income families with children, when it comes to queuing up for public housing, waiting lists are "whole lives long".

Because of its crucial role in housing a sizable share of the nation's truly needy families, especially single parent minority poor, I applaud the Subcommittee's decision to authorize additional public housing construction within the revised set of production guidelines that are contained in Section 611 of S.565.

It is fitting and appropriate that scarce production resources be allocated only to those housing authorities that can not only demonstrate an urgent need for more public housing, but also the administrative and management capacity to efficiently produce and manage them. It is also appropriate that new public housing developments be limited in size to no more than 100 dwelling units to a project, and that new units be designed to accommodate the special service needs of their respective tenants. Had this been the accepted practice all along, there would be no need for Project Independence, which is the Subcommittee's attempt to provide PHAs funds to renovate existing space to house new employment and educational services for tenants in existing projects that were designed and built with little regard for such needs.

I also support the Subcommittee's decision to broaden the income limits that apply to newly developed public housing projects. As I understand Section 611(b) (2), up to 25 percent of the tenants admitted to occupancy in a new project developed under this subsection may be low-income (which the law defines as having an income between 51 percent and 80 percent of the area median, adjusted for household size). The remainder of the units would have to serve very-low income families (those with an income below 50 percent of area median).

Since the specific language of the bill dealing with income limits applies just to "public housing developed under this subsection", S. 565 perpetuates the undesirable, two-track income-eligibility system that began as a result of the 1981 legislation. Under current law, up to 25 percent of the units that became available for initial occupancy prior to October 1, 1981 may be occupied by low-income families. Under the 1981 legislation, only 5 percent of the public housing units coming on-line after October 1, 1981, could be made available to low-income families, and this percentage was reduced to zero in 1984. If S. 565 is enacted, for newly constructed units, this percentage will return to 25 percent.

In my view, a broader income mix in public housing would improve the vitality and stability of these low-income communities, and the arbitrary distinction between pre- and post-1981, and pre- and post-1988 developments makes no sense whatsoever. I would strongly urge the Subcommittee to extend the revised income limits to the entire public housing program because it makes sense to do so and is entirely consistent with our national housing policy goals. As long as the federal selection preferences continue to apply to (90 percent of all) new admissions in any given year, a broadening of income limits will not adversely affect the public housing program's ability to serve those most in need of low-rent housing.

My final comment on development concerns the Subcommittee's modest authorization for new units. Rather than the 5,000 units authorized in S. 565, I would suggest that the Congress establish as a national goal the construction of 20,000 new public housing units a year. Not only is this level of production exceedingly modest based upon demonstrated need, but also when measured against historical standards. I am calling for a level of production in the 1990s that is slightly lower than the average annual level of public housing starts during the 1980s (32,329), and more than one-third below the average number of starts that were recorded during the first fifty years of the public housing program's history (29,383).

Half of this annual authorization should be allocated for troubled projects to help PHAs raze and reconfigure their inventories of the worst high-rise projects that plague the families who are forced to live there and which spread blight to surrounding neighborhoods. Another 5,000-7,000 units should be made available through a competitive process to the hundreds of PHAs throughout the country in communities with documented housing shortages and proven development and management capabilities. The remaining 3,000 units are needed just to replace the public housing units that are now being lost to the inventory each year through demolition or disposition at the local level.

Based on CBO's cost estimate of \$71,965 per new unit, the authorization required to fund the development of 20,000 new public housing units in fiscal 1990 is \$1.44 billion in budget authority.

In considering this matter, it is important to recognize that new public housing development does not have to be of the conventional mold. It could include the redevelopment of existing public housing units that are currently wholly or mostly vacant; acquisition of private market units, with or without rehabilitation; new construction; acquisition of units built or rehabbed specifically for the housing authority; or acquisition of some units in a larger building or subdivision where the balance of the units are now owned by the PHA.

Supportive Services in Public Housing

The families and individuals who live in public housing are generally very poor and have been growing poorer over time. For reasons having to do with changes in the demographic composition of cities and to a lesser degree, to federally mandated changes in tenant assignment policies, applicable income limits and minimum and ceiling rents, incomes of public housing tenants have fallen significantly in real terms for at least the last thirty years. Between 1950 and 1970, for example, the median income of public housing tenants fell from 64 percent to 37 percent of the national median. And between

1974 and 1981, tenants with incomes between 10 percent and 30 percent of the national median rose from 60 percent to 65 percent of all tenants and those with incomes over 30 percent of the national median fell from 36 percent to 31 percent of all public housing tenants.

There is an urgent need to provide educational and employment training and support services to public housing residents. Though largely limited to providing funds to renovate common area space to house employment and educational services for which they have already obtained financial commitments from other sources, Subtitle C of S. 565--Project Independence--offers creative housing authorities a significant source of much-needed financial assistance.

It is also significant that Project Independence funds are, to a limited extent, fungible between social service and real estate uses. Subsection 632(2)(A)(iv) of S. 565 permits Project Independence funds to be used to directly fund employment or educational services to residents on a transitional basis so long as long-term funding for these services will be available from other sources and the Project Independence funding monies are phased out over a three-year period. Though authorized funding for Project Independence is a modest \$25 million in each of the next two fiscal years, the use of "housing" monies for social services and the fact that the earnings of public housing residents resulting from their participation in a Project Independence-financed service shall not be considered income for rent-determination purposes for up to eighteen months makes this provision of S. 565 precedent setting for the public housing program.

Since I am not familiar with the contents of the Family Support Act that is referenced in Section 633 of S. 565, I do not know whether public housing residents who participate in employment and education-related services that are provided by PHAs or other agencies, that are not funded through Project Independence, will enjoy the same income exemptions that are associated with Project Independence programs. Clearly, the same rent-determination rules should apply to all income-enhancing programs regardless of their sponsorship.

Finally, because it relates to this same issue, I would urge this Subcommittee to direct HUD to implement the ten-city Public Housing Comprehensive Transition Demonstration program that was enacted in Section 126 of the Housing and Community Development Act of 1987. Based upon an innovative program in Charlotte, North Carolina, the demonstration would test the effectiveness of providing a comprehensive program of education, employment and other intensive services to participating public housing residents in order to ensure their successful transition to private housing over a seven year period. To my knowledge, HUD has never implemented this

demonstration despite the fact that Section 126 of the Act mandated that it be carried out.

The National Commission on Severely Distressed Public Housing

Section 641 of the bill would establish a National Commission on Severely Distressed Public Housing whose principal mission should be to identify severely distressed public housing projects, assess the most promising strategies to improve the conditions of such projects, and, most importantly, to develop a national action plan to eliminate by the year 2000 unfit living conditions in them. Though this is the least expensive Section of S. 565--the total authorized funding for the Commission's work is just \$3 million-- it may be one of the most significant elements of the National Affordable Housing Act.

Although just 27 percent of all public housing developments are high-rise buildings and while only a subset of these terrible mistakes of the past provide inhumane living environments, by stereotyping all public housing, they cast a long shadow over the entire program and, by implication, over other federal housing assistance efforts, as well. I remind this Subcommittee that the demolition of Pruitt-Igoe in St. Louis, which, to many, continues to dramatically symbolize the failures of public housing, took place seventeen years ago. Despite the fact that the Congress wisely acted to virtually ban the construction of high-rise projects for families in 1974, and that since then, more than a half million new public housing units have been made available for occupancy, including scattered site single family dwellings, townhouses, garden apartments and low-rise buildings, the ghost of Pruitt-Igoe continues to haunt us.

Until we effectively deal with the problem of severely distressed projects which, according to best estimates, may include fewer than 15 percent of all public housing units across the country, the future of new low income housing production will remain in doubt. The National Commission on Severely Distressed Public Housing can play an important role in developing bipartisan, cost-effective solutions to this very serious problem.

Mr. Chairman, in addressing the issue of the National Commission, you asked each witness to comment on the proposal's strengths and weaknesses. I believe that the purpose, mandate and proposed composition of the Commission are all on-target. With respect to the latter, I want to emphasize my support for creating such a diverse panel. Turning around severely distressed public housing projects involves finding creative solutions to complex and interdependent human, housing, financial, and political problems. It is, therefore, necessary that the Commission

contain representatives of public housing tenants, public housing authorities, the private sector and elected officials.

While I would disagree, some will probably argue that the very act of creating this commission will bring undesirable publicity to the public housing program at a time when more and more PHAs across the country are demonstrating their creative abilities to finance and create successful, human-scale housing developments, even in the absence of large amounts of federal development funds. Others might object to the notion of a federal commission dictating solutions to what they see as essentially local problems. Neither of these arguments are very compelling.

With regard to the first, the damage has already been done. For example, whenever the Wall Street Journal decides to editorialize about bloated domestic budgets or the universal failures of federal low-income housing policies, it runs a story on the drug and crime problems in Cabarini Green, Robert Taylor Homes or in some other public housing disaster.

With regard to the issue of federal intervention into local problems, I would emphasize that the Commission's job is to identify workable strategies and to devise a national action plan to solve the problem, and not to impose cookie-cutter solutions on localities whose situations vary significantly from one jurisdiction to another. Nevertheless, history has demonstrated the absence of political will and capacity at all levels of government to deal effectively with this extraordinarily debilitating problem for more than twenty years. I would hope that the National Commission would put pressure on all parties to resolve the problems of these terrible high-rise encampments for the poor.

Public Housing Homeownership

As I indicated in the introduction to my testimony, I am currently under contract with HUD to evaluate the seventeen city National Public Homeownership Demonstration (PHHD). While most demonstration programs will transfer to tenants fee simple interest in their single family dwellings, five of the seventeen involve the sale of attached townhouse or multi-family units using the cooperative or condominium form of ownership. In addition to differences in building type and ownership interest, PHA sales programs vary by number of units to be sold; character of the neighborhoods in which their sales projects are located; extent to which the sales prices are subsidized; financing approaches utilized, and the income groups served.

We are currently in the 30th month of a 36 month evaluation effort which, among other things, has allowed us to make two or more site visits to each operational site, discuss individual homeownership programs with local housing authority

officials, meet with co-op and condominium association leaders and their boards, collect a great deal of information about pricing, financing, counseling and training of program participants and, to conduct an extensive in-home interview with every home buyer who takes title to his or her dwelling unit before July 1, 1989.

Because of my role as independent evaluator and the fact that our assessment is not yet complete, I would prefer not to discuss the results of our work with the Subcommittee at this time. We have delivered to HUD two written reports on the status of the homeownership demonstration, the most recent one dated April, 1989, which, I am sure, is available to this Subcommittee. I will be pleased to respond to any questions members might have on the design and status of the national demonstration as long as these do not require me to draw definitive policy conclusions about program outcomes. Should this Subcommittee decide to hold separate hearings on public housing homeownership after my work for HUD has been completed, I would be pleased to appear as a witness and engage in a full discussion of the policy implications of selling public housing to tenants.

Despite these self-imposed constraints, I am able to address some of the issues the Subcommittee raises regarding the sale of public housing, especially those relating to Section 123 of the Housing and Community Development Act of 1987. I begin my comments by distinguishing between the legislative authority under which HUD's national public housing homeownership demonstration is taking place and the sales requirements under Section 123.

The National Public Housing Homeownership Demonstration (PHHD)

The national PHHD is being carried out under Section 5(h) of the U.S. Housing Act of 1937, as amended (in 1974), under which HUD may authorize public housing authorities to sell units to individual tenants "on such terms and conditions as HUD may determine", including the continuation of federal contributions to pay the debt service for the initial development and subsequent modernization of the unit. The law does not allow, however, for the continuation of public housing operating subsidies after final transfer of the title takes place.

HUD specified four general conditions that all PHHD demonstration programs had to meet, while leaving it up to the participating housing authorities to determine exactly how they would meet them. The four conditions were:

1. All properties transferred to tenants must be in good condition prior to sale.

2. PHAs cannot displace involuntarily a tenant who does not want to, or is financially unable to, participate in the homeownership demonstration.

3. PHAs must provide both pre- and post-purchase counseling and training to prospective homebuyers, and

4. Methods of guarding against windfall profits from resale of units for a minimum of five years must be incorporated into each program.

HUD also required PHAs to consider means of assuring the long-term availability of the property to lower-income people, although adopting permanent resale restrictions was not a program requirement.

Section 123

In December 1987, Congress enacted its own Homeownership program for public housing tenants in Section 123 of the Housing and Community Development Act. The approach to public housing homeownership in Section 123 is quite different from that embodied in HUD's national demonstration. Unlike the PHHD, which provides for the direct sale of single and multi-family public housing units to individual families, Section 123 provides for the sale of entire multi-family public housing projects to qualified resident management corporations (RMCs), which are, in turn, authorized to resell individual units to tenants at an unspecified future date. In creating this vehicle for the transfer of whole projects, presumably, the Congress believes that, at least with respect to multi-family sales, an extended period of proven self-management capacity should be a prerequisite for homeownership.

As currently written, Section 123 pays far more attention to how experienced resident management entities can acquire their projects than it does to how and when individual public housing tenants can themselves become homeowners. In this sense, while HUD's public housing homeownership demonstration is testing alternative models of homeownership, Section 123 will test the efficacy of resident management corporations as either interim or long-term landlords. Few qualified resident management corporations currently exist, and the HCDA requires three years of proven management excellence before an RMC becomes eligible to purchase its project. Looking at the situation realistically, it will be at least five years from the Act's passage before this homeownership program could possibly generate a significant number of public housing sales.

Another major difference between HUD's demonstration and Section 123 is that the latter requires replacement housing on a one-for-one basis, but made no provision for financing it, while the PHHD does not. HUD's rationale for neither

requiring nor providing replacement housing is that units sold to tenants must continue to be occupied by low-income families for at least five years, or for an even longer period if the housing authority chooses to extend resale limitations. With respect to Section 123, neither the 7,000 new public housing units authorized in the 1987 Act, nor the 5,000 authorized in S. 565 can meet a tiny portion of the demonstrated national need for more low-income housing, let alone replace units that are proposed to be sold under local homeownership programs. Unless the Congress intended to discourage PHA interest in a sales program by implicitly requiring that replacement housing be provided locally or through state programs, it must authorize substantially higher levels of assisted housing production.

Section 123 does a much more thorough job than HUD's PHHD of protecting the rights of nonpurchasers. Sensitive to the forced-relocation issue raised by critics of HUD's sales initiative, Section 123 goes the extra mile in assuring that no sales initiative will interfere with the rights of other families living in public housing. However, the bill blankets continuing renters with so many options and protections as to render most multi-family transfer programs probably infeasible.

Among other protections offered non-buyers, Section 123 permits those who choose to remain in their present units as renters to retain full legal rights as public housing tenants, whatever that means once the project has been transferred to a resident management corporation and HUD is long out of the picture. Even highly efficient resident management corporations that buy their buildings with a high percentage of nonbuyer tenants will be in for a tough time as landlords, in view of a ban on involuntary relocation and a permanent loss of HUD operating subsidies. Large numbers of nonbuying tenants who are either unable to afford to buy their unit, who are not interested in becoming owners, or who are ill-equipped to take on the considerable responsibilities of caring for a home, can cause a cooperative or condominium substantial management difficulty and financial problems.

When considering the broad issue of public housing homeownership, I would urge the Subcommittee not to focus exclusively on Section 123, but to also consider the problems and possibilities that are being identified in the diverse set of transfer arrangements that are now being tested in HUD's national demonstration. By tracking these sales programs, we and HUD are learning a great deal about how to design and implement effective sales programs, and about buyer expectations, pricing, financing, counseling, training, and the self-governance of public housing cooperatives.

With respect to the Chairman's specific question about possible modifications to Section 123, I would suggest that

the Congress clarify its intent with regard to the following three issues. First, does it matter how long an RMC holds title to a project it acquires from a public housing authority before converting it and reselling individual units to low-income tenants? Is five years about right? Is fifteen years too long? Second, because some Section 123 projects will be renovated using HUD funds and then sold for \$1, the acquiring RMC will have substantial equity to borrow against. Should the Congress limit such borrowings, either in terms of the amount of long-term debt the RMC can accumulate prior to its conversion to tenant ownership, or restrict the purposes for which the debt is obtained? Finally, was it the Congress' intent that RMCs should be allocated project-based Section 8 rental assistance to replace lost public housing operating subsidies in order to maintain the low-rent character of their projects during the extended periods in which they hold title to the property?

Senator CRANSTON. Thank you very, very much, Mr. Stegman. We appreciate the comments of all of you and appreciate your brevity. Your full statements will go in the record as if read.

I would now like to put several questions to you, and why don't we do it this way. It would be best if I just state a question, one of you, whoever chooses to respond, and then if there is any difference of opinion or any way you would like to amplify or stress a particular point, please do that.

We learn best when we get different opinions or differing emphases from members of panels like this. So feel perfectly free to differ with each other or to state what you think is more important if something else is stated which you think is less important.

Public housing is concentrated on serving the very poor more than any other federal housing program. Many observers believe that this deep income targeting has made it more difficult for public housing authorities to locate and manage properties. The National Affordable Housing Act would broaden the income limits that apply to newly constructed public housing, allowing 25 percent of the new units to be occupied by low income families with the remaining units being occupied by very low income families.

So the question is do you favor such a broader income mix in public housing? What do you believe would be the benefits of that kind of a change? What could be the drawbacks, if any, and what would be the effects of extending such a mix to existing public housing developments?

Who would like to lead off?

Mr. Carter.

Mr. CARTER. Since I addressed that in my testimony, I will lead off.

As I indicated, the combination of the different factors have driven most of the working poor out of our public housing and left us with the poorest of the poor. I applaud the fact that the 25 percent provision is in there. I think it is absolutely needed.

When one looks at the drug problem in public housing, one of the difficulties that arises is that working males who used to live in public housing have been forced out because of the higher income and the amount of money they have to pay for public housing. Those working families have moved out, and we have been left with the residuals.

And my feeling is, that it absolutely needs to be extended to the public housing, existing public housing, so that we at the local level have more flexibility and more capability of properly managing our units.

Thank you.

Senator CRANSTON. Thank you very much.

Yes, Ms. Johnson.

Ms. JOHNSON. Senator, I would like to just add to that. Whereas you have a specific amount of allocations for low income working people, we feel through our experience at LeClaire that it would be even more beneficial if you address the problem of the percentile of what you charge for the rent and encouraging those support services that you have in the bill in terms of helping people with their education and their health and doing a holistic approach. I believe that would be better if you leave the program that you have in

place and deal with that issue from the screening perspective and work on getting people at very, very low to the low in the working area.

And so I don't think the income necessarily reflects the character of people, in our experience. We have low, low income people with good character, not on drugs, care about their community. Then you have got low income and upper income people on drugs. In fact, those are the ones that are selling the drugs in our community.

Thank you.

Senator CRANSTON. Thank you.

Any other points that anyone would like to express?

Yes, Al.

Senator D'AMATO. Mr. Chairman, I am going to have to leave, but before I do I would like, if I might, pursue the line of questioning that you touched on.

Senator CRANSTON. Sure.

Senator D'AMATO. It seems to me that there is a very real problem when working families are forced to do one of two things. They are forced to either hide their income, not respond truthfully as to what they are earning, or to leave their home, and that is how, it seems to me, we turn a home and a community into a project.

Now, my family, my grandparents lived in a beautiful home. It was a home that provided for people who had minimal incomes. It was in a mixed community; ethnically, culturally, there were black, and white, but it was always safe and secure.

But when we in this past decade, changed the income eligibility and made it more difficult for working families to live in their own homes forcing many to leave, it served a disastrous blow to the stability and to the ability of those of you who are charged with the management to carry it on.

I think we did a disservice, and I fought against that. I think that the rationale, while it might seem well on paper to say that we want to give housing opportunities to the poorest of the poor, while that makes good rhetoric, as a practical sense if you force out people who are earning \$13,000 and \$14,000 and \$15,000 and \$16,000, depending upon the area income—you force out people who you need in that community. You want that civil servant who is working, who returns, who provides stability in that community.

What a terrible thing, I think, we have done to our people. So I would hope that we give flexibility, and I am not going to pinpoint any one number, but it would seem to me that it should be far greater than it is. We need to encourage the kind of stability and the kind of home that we once had.

Mr. PHILLIPS. Senator, if I can just add something to your comments.

I think the key words are upward mobility for us. If we are in fact about the business of trying to develop an upward mobility for people that live in public housing, then they have got to have living nextdoor to them an example of what they want to do and what they want to be and people around them that they can emulate. They need to have people that are also working. They can't have just the same kind of individuals and the same kind of unfor-

tunate economic situation that they are in all surrounding in that one area.

Senator D'AMATO. Well, Mr. Phillips, don't you even see another side, too? When you hit a particular point and then force a family out of that home in which they want to stay. They are willing to pay additional dollars. If their income goes up, then they should pay their percentage accordingly.

But to then just force them out I think is a tragedy in itself. Many of them aren't ready, haven't accumulated sufficient funds so that they can purchase a home. They are then forced to look for shelter at costs, beyond their means because they don't have that assistance.

So there is another blow that you are striking. So what can they do? They hide their income. So you make them break the rules. You have got hundreds of thousands of people in public housing who are technically breaking the law.

Mr. CARTER. I will give you a perfect example of just that problem. Last year my authority had a family; with a father in the household. He got a job as a construction worker. The next month his rent went up to between \$600 and \$700, and he was faced with the choice of either leaving his family, moving out of public housing, or quitting his job. He was not prepared to move out—or quit his job. Those are the options that we are giving people, and it is not right. We are not accomplishing what we are supposed to when we only provide those options.

Ms. JOHNSON. May I add, Senator?

Senator D'AMATO. Yes.

Ms. JOHNSON. We agree that the working class—and I am working person—in public housing is most certainly a role model. We have to go back and look at what the commitment of the government is in providing housing for the very poor, and in our position as the resident management corporation we think that the overall issues should be looked at, specifically the amount and how rent is calculated. That is the reason for the untruths and inconsistency of reporting income, and we see if you set a specific rent people will come out and tell the truth. Put the people on the lease and begin to pay a good rent, and then they themselves will feel good about themselves, and they will come up from the very low to that medium working income.

So now if you are going to just go work on coming from the outside in, that is not going to work. You need to work from the inside out, and that would allow people to come up, get employed, and they will become their own role model.

Thank you.

Mr. ECHOLS. Senator, I think you hit on two very important words, "home" and "family."

One of the things we know is that when there is turmoil in the streets there is turmoil in the homes, and that is one of the problems that we are having in our neighborhoods and our developments, not only in public housing, but in neighborhoods throughout urban communities and, as far as that is concerned, the suburbs and the rural areas as well.

I think that when we restore pride and value to the family system, which is what we are talking about when we talk about

role models, we need to give some flexibility, and one of the things is an income mix, is the opportunity that existed prior to 1980 in public housing units, where we had real nice housing units because families were working, and that is a very key element.

Senator D'AMATO. Mr. Chairman, I thank you very much for giving me the opportunity of touching on it. This has been something that has disturbed since I saw its implementation. I see the very detrimental impact that it has had on many of the public housing programs throughout the country. We are experiencing them in the New York Metropolitan Area, and I am sure that there have been many families that you have seen who have been forced to do one of the three things that Mr. Carter has mentioned; leave the development, have someone quit their job or falsify their records. None of those I think are desirable alternatives.

Thank you, Mr. Chairman.

Senator CRANSTON. Thank you very, very much.

Yes.

Mr. STEGMAN. Mr. Chairman, let me just add a point. I agree with everything that has been said, but the argument against doing this was that you would dilute the targeting. I mean—

Senator D'AMATO. Well, I went through that.

Mr. STEGMAN. What I would like to say is that what has changed since these arguments first emerged is that with the introduction of the federal selection preferences in July 1988, even if you expand the low income to 25 percent, every new occupant would still have to meet one of the federal selection preferences. This means that each low-income family admitted to public housing would have to be suffering from a severe housing problem, even though its income was a little higher.

So that you can't really argue that you are really diluting the use of housing resources any more because the federal selection preferences would still obtain.

Senator CRANSTON. Yes, a very good point.

Senator D'AMATO. That is a very good point, Mr. Stegman.

Senator CRANSTON. Let me go on to this topic, definition of severely distressed projects.

The act would establish a National Commission on Severely—Al, thank you very much—on Severely Distressed Public Housing that would identify those public housing projects that are in a severe state of distress, giving special attention to projects that contain more than 500 units, have vacancy rates higher than 50 percent, are occupied predominantly by families with children, and contain hi-rise elevator structures.

So the questions on that point are these:

Are there better factors to use than those identified in the bill? To what extent is distress caused by physical factors, particularly original design flaws, deferred maintenance, excessive vacancies? To what extent is distress caused by people problems, such as high unemployment rates, broken families, welfare dependency, and the ever present threat of drugs? To what extent is distress the product of poor management by public housing authorities?

Who wants to lead off on all that?

Yes, Ms. Johnson.

Ms. JOHNSON. I would just like to start off to say that I think that in defining distressed developments you have to look at a combination of all the above-mentioned items. Most certainly the people living there is a part of the problem, as well as the public housing administration, the unemployment and broken families.

I would hope, or recommend to this gathering that you would expand upon your definition to include not just a restricted type of building, but all of the developments, look at what is going on in all the development, be it hi-rise or lo-rise.

I would recommend a solution that in some way that if the government could assist some PHAs in improving their management process. I would most certainly recommend that the rules and standards be reiterated. The problem we are having is there aren't many rules enforced and there are practically no standards as they have been in the past, and they are on the books.

I also recommend that you provide resources and needed services to all of the areas. We notice that in most public housing sites there aren't any human services, little or none, and those that are provided it is very restrictive. So we also recommend that if you do provide necessary funds and resources that you would look at another way that you would channel it down to various agencies and resident management corporations, for examples, other than going through your public housing administration. We find that has been a very bureaucratic, slow process to get any funds to do any kind of improvement.

Thank you.

Senator CRANSTON. Thank you very much.

Any disagreement with that statement or any amplification?

Mr. CARTER. I guess I would simply make an observation, and that is that when you talk about the management of public housing, these distressed properties are primarily in large urban areas, most of them with a strong form of government. I think you need to talk more about the political aspects of why, in many cases, a housing authority is not able to do the kind of thing that they ought to be doing. I think that we do the whole issue a disservice when we don't consider the political ramifications because they are paramount in most of the cases where distressed properties exist.

Mr. ECHOLS. Mr. Chairman, I might say that when we looked at several million dollars having been spent on the Abt study, there needs to be a hearing conducted on that particular study. How did they come up with \$21 billion? Is that an accurate figure? And we need to really take a serious look at that because certainly that adds to the distressed figure, the distressed category.

When we look at the ICF study that talked about reserve funds and how much it would take to make housing authorities in less than distressful ways as far as the reserve funds accounts are concerned. We need to take a look at that study as well.

And then there have been other studies that have addressed the long-term impact of, for example, ceiling rents and many studies—and housing authorities have been required to prepare and submit for approval a 5-year comprehensive occupancy plan, which certainly can be used to address what the needs are as far as distressed developments are concerned. How do we get to vacancy rates? Are there other rules and regulations in the inventory pres-

ently that cause us to have to apply for NHRA funds in various areas to address the issue of distressed projects?

There is a lot of information out there that needs to be brought to your committee, to your attention, and to the attention of others, and that could be done by the residents themselves who have a very definite interest as has been expressed here today by housing authorities and by local officials.

The nonprofit community certainly has an interest. We all have an interest in improving and eliminating distressed housing projects because they are not an advantage to any community. It is not an advantage to my community to have vacancies when we talk on the one hand about homelessness and such other things that are creeping into our communities.

So we feel that, you know, a hearing and an airing on the information that is already assembled would be a good first step.

Ms. JOHNSON. May I add, please? Senator, may I add?

Senator CRANSTON. Of course.

Ms. JOHNSON. In talking about distress, I think that you need to look at the people. They are the distress factor that goes with the human element as well as the physical element of these various public housing sites. So when you are going to address that, you have to look at the unemployment, the combination of people being on the public assistance and look at all of the laws that govern the lives of poor people, and that is having a tremendous impact upon attitudes of various stages that deal with people.

So in the resident management program we noticed that we had to deal with the human aspects, so we set programs in place to do people development, which starts from education levels in terms of learning what your lease say, what our responsibilities are, and in that area, for an example.

Thank you.

Senator CRANSTON. Opinions differ on the act's proposal to create a National Commission on Severely Distressed Public Housing. Our thought has been that such a commission could help reverse the pervasive negative image of public housing and build a national commitment to eliminate the most intolerable living conditions. If well done, the work of the commission should provide Congress and the Administration with a realistic way to deal with the most compelling problems.

So the question on that point is, do you agree with our objectives in proposing the commission? How would the commission's focus on successful intervention strategies help transform the image of public housing? What other benefits might the commission bring and what drawbacks, if any, do you see?

Mr. PHILLIPS. I think, if I can address that, because CLPHA feels that there definitely is a positive move in creating the commission. The question is going to be what the membership of that commission consists of, and we have talked—and I might just take a minute to say that Don Campbell and Bruce Katz and Grace Morgan and your staff people have done an outstanding job of working closely with the housing authorities across the country in trying to get the kind of information and the feed to bring into your committee so that you would be able to have a well-rounded feeling and understanding of the magnitude of the problems, and

we envision that a commission of this type having that same kind of ability and capability to be able to understand and to listen to and have people on there that can open up the kind of understanding so that that commission is not just talking from a negative standpoint and talking about the negative things that may be there in public housing and why they are negative, but also examining the reasons for the negative things and then coming up with the appropriate kind of positive recommendations and/or suggestions that make it so important for a commission of this type to be able to move forward in a positive way.

We have long been hurting for a commission that is going to be about business that is going to move on these issues. The points that you have heard here this morning from the members of this panel as it relates to people problems in distressed units across this country are so very, very important and so critical, but it then becomes important for a commission to look at that and examine that in a thorough way so that they start talking about the kind of training and the kind of support services, the kind of training for residents coming into public housing, new residents that must go through what we call in Houston a preoccupancy training program, so that people learn how to do things for themselves.

That enables that individual to have that self-sufficiency, but it also enables that housing authority to be able to cut back on the cost of maintenance on a day-to-day basis.

Those are the kinds of things that we think a commission that you are suggesting is going to benefit not only the residents that live in public housing, but the managers that have tried to manage public housing with limited resources and limited dollars, but also enlighten the city fathers across this country and make them very much aware of the importance and the priority position that public housing ought to be placed in in this country today.

Ms. JOHNSON. May I add?

Senator CRANSTON. Yes.

Ms. JOHNSON. Adding to that, we do support a commission. I will specifically request that you would include more public housing residents on this commission. It has been historically that plans are always made for people in public housing without the people living there, and that does not work. If you have people living there, we live there, we know more about what is going on than the PHAs and the Congress, and we can just give you some on-hand experience.

Thank you.

Senator CRANSTON. I am sure you do know more about what is going on.

Mr. ECHOLS. Mr. Chairman, the NAHRO position continues to be that if—you know, and there are some statements that Mr. Phillips and Ms. Johnson have made that we would agree with. However, we have had the Abt study and there has been no hearing on the Abt study, and there is a \$21 billion dollar figure out there, real or unreal—it has been proven what it really is. HUD differs with that figure greatly. We feel that the debate needs to get out on that particular figure, and if you look at 22 troubled agencies that are identified by HUD, they contain 253,000 of the 1.4 million public housing units nationwide. If that is where the distressed issue is in the

physical development side, then I think we could be about the business of identifying what that need is through the comprehensive occupancy plan as opposed to developing another commission to take a look at it and delaying the funding necessary to bring about those changes.

Senator CRANSTON. Thank you very much.

If there are no further comments, I want to know the presence now of Senator Sanford. I mentioned you wanted to be here to introduce Mr. Carter and Mr. Stegman, but they went ahead with some very fine contributions already. I know you may now wish to make your own comments about them and about the bill, or whatever.

Senator SANFORD. Well, let me say to all of you that we are deeply indebted to Senator Cranston. This is a good example of his dedication to finding better answers for housing needs in America. He has worked at it diligently, and I am satisfied that the program is going to be vastly improved because of his dedication, and I thank him and I thank him.

This is a good example. He is here and he is gathering in these ideas and gathering in this testimony. Other Senators have to be other places. I have had to be at four different places this morning and yet another one in 12 minutes.

I wanted to say, though——

Senator CRANSTON. Thank you, Terry, very much.

Senator SANFORD. Well, we really are indebted to you.

I am proud of the excellent work that North Carolina authorities have done. They have, I think, done a remarkable job, well-managed, decent housing, good environments, and they have had far too little money to get it done on. Nevertheless, they have stretched the dollars in an admirable way, and I am certainly pleased that you now are proposing ways that we can expand and strengthen this.

I am sorry I didn't get here to speak of Mr. Carter and Dr. Stegman before they spoke, but I don't even have to know what they said to know that it has been remarkable helpful testimony.

Floyd Carter is the executive director of the Raleigh Housing Authority, and that is certainly one of the best run systems in the country. He is testifying for the Public Authorities Directors Association. He has worked with my office and has given us some mighty good advice, and I know he knows what he is talking about, and so his insights will be very valuable to have in the record, and you may be sure that we already have read very carefully what you have proposed.

I would also like to extend a welcome to Washington to Professor Michael Stegman, Chairman of the Department of Regional Planning, City and Regional Planning at Chapel Hill, and I know his testimony will uphold the fine traditions of my alma mater.

I am delighted to have all of you here and very grateful to you for taking your time and giving your effort to let us better understand what is going on.

Ms. Johnson makes the point—in another context—but we can't sit up here and hope to accommodate the needs of the nation, especially something as critical and as complex as housing, without your help. So your effort to get here and your time and preparation

of testimony is very valuable and is greatly appreciated and I am sure will be put to good use. We will do the best we can to translate it into benefits for people who need our help in housing.

I thank all of you for being here, and, Mr. Chairman, I thank you for letting me interrupt and be here for just a few minutes, and I hope you will excuse me, with the understanding that we can't get all of our work done without moving to many places.

Senator CRANSTON. Right. Well, thank you very much, and your contributions are never an interruption.

Senator SANFORD. Thank you.

Senator CRANSTON. Thank you.

Ms. Thompson's testimony touched upon the controversial issue of public housing demolition. I know many of you in the panel have had a personal experience with proposed demolitions in your own jurisdictions.

When is a demolition or disposition of public housing justified? Are the current provisions governing these actions too restrictive, or are they too permissive? What are your views on the one-for-one replacement requirements contained in the Housing and Community Development Act of 1987? Mr. Echols.

Mr. ECHOLS. I think, Mr. Chairman, I might respond to that, since we do have an active demolition going in the City of New Haven at the New Haven Housing Authority.

It is a demolition effort that is a result of five years worth of negotiations that has included the residents, local, state, and federal officials, the housing authority, the community at large, the business community, the Science Park community and the Yale University community, and that group came together in a consensus and suggested that 366 units of public housing in hi-rise buildings should be demolished because it did not meet the need of the community.

There was an agreement that those units be demolished and that we apply to HUD for such demolition funds. Those demolition funds have been approved, and the community continues to plan a strategy to replace those 366 units with 300 townhouse units on the site of the demolition and, in addition, to replace on a one-for-one replacement basis the remaining units in scattered sites throughout the community, letting each area of the community take up its share.

That is going to be not as easily done and said as planned for because there is that resistance to low income housing in most urban communities being built out, but because the process is one of education first and then proceeding with suggesting some management improvements as we go along, we are building a consensus of support.

So we are one city where the rules and regulations, as stringent as they have been, have worked effectively and has caused the local political establishment as well as the local community to buy into it before demolition was approved, and I think that the merits of having residents right there in this planning process has been the key ingredient that has made the difference.

Senator CRANSTON. Thank you.

Any other comments on demolition?

Ms. THOMPSON. I would like to speak. I would like to speak on some of the things that he was saying, is that in the area that I live in our tenants were not asked about demolition. We were told that our places were going to be demolished.

Also, the criteria for demolishing our buildings is a criteria that doesn't even make good sense. It is called density. We have three-story buildings, and they say that the buildings are too dense. Children should not live on the third floor, and I see that—these buildings, our buildings, are very well put together. These are buildings that wouldn't fall. Nobody—I don't think you could blow them up.

But they would rather tear these buildings down than to renovate them, and they could be renovated. They could be usable, and I think it is a total waste of money, and also it is going to be displacing a lot of people because we have a lot of political problems and we don't have enough housing in the city of Chester to house the people that already are there.

So therefore, our demolition is totally not acceptable to the tenants, but the tenants, like I said, were not the people that they asked about demolition. They just said, well, we are going to tear down a hundred of your units, and that is it.

Thank you.

Mr. PHILLIPS. In a city like Houston the residents were contacted and were discussed with at length. They did in fact disagree with the position that the housing authority took in terms of demolition of a thousand—or recommendation for demolition disposition of a thousand units on 37 acres of land which buttressed the downtown area, and this land itself was seen as a very valuable piece of property, and the Board of Commissioners along with city fathers did in fact vote for a one-for-one and made it very clear in its resolution a one-for-one public housing replacement.

Five years went past, and it went through the process and it went through the system, and all of the things in the legislation spelled out was followed right to the letter. However, Congress, committee, subcommittee saw fit to hold it up, to say that they were opposed to it, and that enabled it to go through an extensive investigation through the General Accounting Office and the Inspector General's Office, and during that 5-year period of time the city still stood and held its position.

The housing authority felt very strongly that they could in fact replace the one-for-one public housing replacement across the city because of the economy, because there was in fact units and housing that would be available, which was kind of unique from many of the other major metropolitan communities across the country.

And we saw this as a valuable mechanism to make money on that property which was going to go back into public housing purposes and to have monies to replace the one-for-one as well as also put away monies for rehabilitation of some of those older units that would be coming online for rehabilitation at a later point when we could see that the cutting back of modernization dollars were in fact forthcoming.

So we felt very strongly, and still do, that it was a plan that made all the sense in the world.

The unfortunate thing was the Secretary of HUD sat on the application for some four years and never approved it and went out

of office without approving it, and the unfortunate situation now is that because of the political climate in the city, the city fathers have now withdrawn its support of the application and we are back to square one.

So the housing authority now has to reexamine the whole question of rehabilitation. The Congress has enacted a piece of legislation that states that no federal dollars can be used for even any examination of disposition-demolition at this point, which enables us not to move forward on anything in that respect, and so we are back to square one, and I think it is an unfortunate situation. Five years have been lost. It is a thousand units that now some 42 families occupy in that development, and the rest of them are all boarded up.

And it is an unfortunate situation, and I would have to say to you that it is an unfortunate situation that both Congress and the Department of Housing and Urban Development drug its feet on that situation and would not make a determination one way or the other.

I mean, we got to the point—it was so unfortunate we got to the point of saying either tell us, no, we can't do it so we can move the other way or, yes, we can do it so we can move that way, and nobody would give us that assurance, and I think that your committee ought to look at that very, very strongly in terms of moving. If it is going to happen, they move and it happens, and we don't play games with people's lives, because that is what took place in Houston.

Senator CRANSTON. Mr. Stegman.

Mr. STEGMAN. Mr. Chairman, I think this relates to the issue of establishing a national commission. The issue of demolition has become so politicized in a national housing environment in which there has been no production funds at all that there is really no political incentive for HUD to act on highly contentious demolition requests with any dispatch when there is such an urgent need for low income housing at the local level.

The distressed projects that you are talking about, so many of them have high rates of vacancy. The national commission, if it was established, would have to deal with that very difficult issue of one-for-one replacement and to determine whether hundreds of units that have not been part of the occupied stock ought to be subject to the one-for-one replacement requirements.

Clearly without any housing production programs underway, it is obvious that the polarization at the local level, the disagreement over every single unit, whether it is usable or not, has become a symbol to low-income people, to housing advocates, and they don't want to see anything demolished regardless of whether it provides or even has the potential of providing decent housing. I think this issue is going to have to be dealt with at that commission level.

Senator CRANSTON. Yes, Ms. Thompson.

Ms. THOMPSON. I would like to say one thing, that while demolition might be feasible in some areas, there are places, like the place I live in, that there are people living in these homes. I mean, there is not a whole lot of vacancies there other than created vacancies and vacancies that are not filled for the simple reason that they want to demolish these buildings.

So there is another end to that whole spectrum of, well, maybe these places need to be demolished, but why demolish places that people are currently living in and that could be utilized as housing for the folks around there, and people in our area do not have housing at all.

I mean, there are very few other units other than public housing for people to live in. So therefore demolition in some areas might be feasible, but like I said, in other areas I think that this commission could be helpful in that respect, also.

Senator CRANSTON. Did you have something to add, Ms. Johnson?

Ms. JOHNSON. Just briefly, I would like to say that in looking at demolition, when you are talking demolition you are talking about destroying neighborhoods, communities. People have been living in these places for years and years, and that, in my opinion, would have a rippling effect based upon where you might take care of the physical side of doing away buildings. What are you going to do with those people that live in there?

Now, there is a program in place that talks about a one-on-one replacement. We agree with that. You do have in the law a 6-year time span to get units to put people in. Our concern is—for an example in Chicago is with Cabarini Green. If you are going to replace people, what are you going to do with them before you build the units? And we have hundreds and hundreds of residents living there, and statistically 98 percent of those residents are good, honest, decent, some of them working, low income people, where you got a 2 percent that is very destructive.

So we are thinking that—we are really hoping that a plan would be set in place to address that 2 percent that is the problem and allow the 98 percent to remain there and rehab those buildings.

Thank you.

Senator CRANSTON. Thank you.

Ms. THOMPSON. May I comment?

Senator CRANSTON. Yes.

Ms. THOMPSON. I would like to say one more thing on the one-to-one replacement piece. I think that we would like to see that places are in place before you displace people. Instead of allowing 5 years to go by, if the places are already in place then we can say that we have a community to put these people in and they are just not displaced for 5 years roaming wherever.

Senator CRANSTON. Any last minute words anybody wants to get in on any aspect of this?

[No response.]

Senator CRANSTON. If not, thank you very much. You have been—yes.

Ms. JOHNSON. I just want to thank you, personally thank you for this opportunity. It has been a pleasure.

Senator CRANSTON. Thank you.

Ms. JOHNSON. Thank you for your attentive listening to all of our statements.

Thank you.

Senator CRANSTON. Thank you very much. You have been very helpful, and we look forward to working with you as we carry this program forward.

Thanks a lot.

Mr. STEGMAN. Thank you, Senator.

Ms. JOHNSON. Thank you.

[Panel excused.]

Senator CRANSTON. We will now go to the second panel on rental assistance. I would like to ask them to come forward.

[Pause.]

I would like to proceed now with the second panel, and may we start with Janet Charlton, vice president, Multifamily Asset Management, CRI, Inc., of Rockville, MD, representing the National Leased Housing Association.

STATEMENT OF JANET S. CHARLTON, VICE PRESIDENT, MULTIFAMILY ASSET MANAGEMENT, CRI, INC., ON BEHALF OF NATIONAL LEASED HOUSING ASSOCIATION

Ms. CHARLTON. Thank you very much, Mr. Chairman.

Today I am speaking on behalf of the National Leased Housing Association. I serve on their board of directors and had served as executive director of the association for 10 years before joining CRI last year.

The members of National Leased Housing Association are a diverse group—PHA's, owners, developers, syndicators, investment bankers. The Association applauds the development of the rental credit program. They applaud the subcommittee for coming up with a single program that puts together most of the best provisions of certificates and vouchers.

National Leased Housing Association has long been on record in support of the section 8 certificate program as opposed to the voucher program.

The members are particularly pleased with the protections that are built into the program for those families requesting to spend more than 30 percent of their income for rent, the fact that the family must request such approval to live in a unit with a higher than maximum fair market rent, that the contracting agency then determines that the rent is reasonable, and that there is a limit on the percent of allocation that can be used for over fair market rent units.

But while protections for the tenants are one thing, it is also necessary to encourage owner participation in this program. NLHA is pleased with the fair market rent refinement provisions, that indeed these provisions will encourage owner participation, through recognition that rents do vary in a submarket.

What is equally important is that the bill provides that there must be timely increases of housing assistance payments to cover increases in maximum rent or decreases in family incomes.

These provisions would do much to encourage owner participation.

Calculating potential owner opt-out of a program such as this is very difficult. The 1986 Tax Act certainly provided a clear disincentive for any long-term investment in low income housing. There may be individual owners of rental housing today being occupied by certificate or voucher holders who will be unwilling or unable to continue as rental owners or to continue renting to low income

families as they find themselves subject to provisions such as the new passive loss limitations and other tax changes.

We would like to suggest that this committee consider and/or recommend to the Finance Committee that the tax credit program be allowed to be used in conjunction with rental credits.

In our written testimony we state that we would like you to reconsider the role of PHA's in your legislation. We feel that the PHA role in the section 8 certificate program has been tantamount to its success and that the PHAs are necessary to lend continuity to the program, that indeed if you change programs and change the administering authorities that would certainly encourage a great deal of owner opt-out.

The PHA's have done a great deal in outreach efforts to encourage the success of these programs through their intimate knowledge of the community and the citizens.

We endorse the concept of project-based assistance, although we do question a 5-year term—if a 5-year term would provide the kind of security necessary for obtaining financing for rehabilitation or new construction.

And one final comment, somewhat on a slight deviation. The committee's vision of looking forward to assure the availability of these rental credits to preserve federal low-income housing is applaudable, but I think it is important, especially with the budgetary constraints that we are faced with today, that you can't wait until the last minute to decide how much of rental credit are you going to need, how many units are there still going to be out there, which owners will or will not prepay.

I manage a portfolio of 60,000 units. That is a great deal of housing nationwide. There are incentives that were contained in the Housing Act of 1987, such as increasing limited distributions or redefining equity, which I know would encourage a great number of owners to sign up now to extend low-income use, way before the prepayment problem even comes to the forefront. If a property is 10 or 11 years old now, if some of these restrictions could be lifted, I guarantee that there would be a great many owners that would sign on to extend their commitment to low income housing. This would in turn would make your jobs a bit easier, to at least have some sense of units in the inventory with Section 8 assistance expiring to know what kind of rental credits you may need to take care of the tenants in those properties.

We thank you very much.

[The complete prepared statement of Janet S. Carlton follows:]

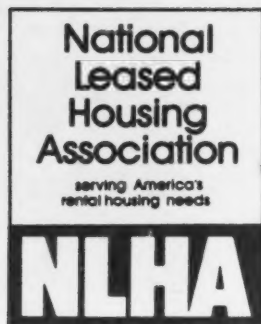
**National
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STATEMENT OF
JANET S. CHARLTON
NATIONAL LEASED HOUSING ASSOCIATION
On The
NATIONAL AFFORDABLE HOUSING ACT
Before the
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
U.S. SENATE
June 16, 1989



2300 M STREET, N.W. / SUITE 260 / WASHINGTON, D.C. 20037 / (202) 785-8888

Testimony of Janet S. Charlton
National Leased Housing Association

Before the Housing and Urban Affairs Subcommittee
Senate Committee on Banking, Housing & Urban Affairs

June 16, 1989

Good morning. My name is Janet S. Charlton and I hold the position of Vice President, Multifamily Asset Management at CRI, Inc. in Rockville MD. I serve on the Board of Directors of the National Leased Housing Association on whose behalf I am testifying today.

NLHA takes great pride in its unique membership with both public and private sector representation. Among our 725 member organizations are public housing authorities, state housing finance agencies, non-profits, housing managers, developers, investment bankers, syndicators and housing professionals. Although our membership is diverse, our goal is shared by all -- to provide decent, affordable rental housing for low and moderate income Americans.

We appreciate the opportunity to present our views on the rental assistance provisions of the National Affordable Housing Act. First and foremost NLHA applauds the efforts of this subcommittee in developing a single rental subsidy program - the rental credit program - which incorporates many of the best provisions of the certificate and voucher programs. Administering two programs with somewhat different slants yet aiming for the same objective created more effort than was necessary. We further applaud the "protections" which have been built into the program for those tenants choosing to pay more than 30 percent of income for rent. Requiring that the contracting agency approve a family's request to live in a unit with a rent which exceeds the maximum FMR after the agency has determined that the rent is reasonable, and limiting the percentage of their allocation to be used for such, goes a long way to alleviate many of the fears and criticisms of the voucher program. The fair market rent refinement provision should

provide an effective tool in encouraging owner participation. There are very definite rent variations among submarkets in an area which must be recognized in order to encourage participation, which in turn should provide increased housing, employment and educational opportunities. Allowing for refinement and flexibility in housing policy will ultimately lead to a furtherance of other social policy objectives.

In order to lend continuity to the rental credit program as it takes its place as the new rental assistance program, NLHA would urge the subcommittee to reconsider the role of the public housing agency in the new program. We strongly support a continued role for public housing agencies as the new contracting agencies responsible for the major portion of allocation rather than the proposed delegation to states and localities. Owners currently participating in the program have developed a relationship with their administering PHAs and to change both the program and the administering agency simultaneously might have the undesired effect of stimulating opt-outs. The outreach efforts undertaken by PHAs have relied heavily on their intimate knowledge of the community, its citizens and their needs.

We endorse continuation of the project-based assistance concept, providing flexibility and local determination of need. This flexibility is essential, particularly in tight rental markets where project-based assistance could help to increase the supply of units through rehabilitation or new construction. However, we question the feasibility of a 5-year assistance term for project-based rental credits. A commitment to renew a five-year term contingent upon appropriations may not be sufficient to secure the necessary financing. Indeed, consideration should be given to a fifteen year assistance term to coincide with the current low-income occupancy period under the low-income housing tax credit program -- an essential tool in the rehabilitation and construction of low-income housing today.

We would request that the Committee provide for increased flexibility and local determination of need by permitting use of more than fifteen percent of a rental credit allocation for project-based assistance with the approval of HUD.

Calculating potential Section 8 existing owner opt-outs is very difficult. The 1986 Tax Reform Act created a clear disincentive for long term investment in low-income rental housing. Indeed, there are many individual owners of rental housing currently being occupied by Section 8 certificate or voucher holders who will soon find themselves unwilling to either continue rental ownership or continue renting to low-income families as their adjusted income reaches the current allowable limit for deduction of passive activity losses attributable to certain rental real estate activities (requiring ownership of at least a 10% interest in the activity during the

entire year and "active participation" in the activity). We would suggest that this Committee, along with the Finance Committee, give serious consideration to allowing the tax credit program to be used in conjunction with the Section 8 certificate and voucher programs and the new rental credit program.

As stated earlier, fair market rents refinements should be utilized to discourage owner opt-outs. Provisions requiring timely increases of housing assistance payments to cover increases in maximum monthly rents or decreases in family incomes are also imperative to encourage participation and discourage opt-outs. Owners and managers of assisted housing must be able to depend upon the Department and administering agencies to maintain the highest degree of reliability in adjustment procedures and processing increases. Currently there are no federal funds available outside of rental income should a property need physical or financial repair. It is essential for current and future property operations that rents are adjusted on an annual basis utilizing prescribed procedures.

The theory behind the Committee's provision to provide rental credits to preserve federally assisted housing is a valid one, although perhaps too simplistic. To encourage preservation, in light of the elimination of tax incentives, low-income housing investments must be treated as true real estate investments based on real economic considerations. The financial considerations of the property are paramount to demonstrating that the property is being utilized for its best and highest use.

Traditionally the yield sought by owners and investors in low-income housing was derived through tax benefits. Today's economic realities are such that cash distributions, previously unimportant, have taken on new meaning. Two options for increasing cash to owners/investors are contained in the 1987 Housing Act as permissible incentives to preserve low-income use. We strongly recommend that such incentives be made available to all properties willing to extend their low-income use. First and foremost is return on investment. The majority of low-income properties are restricted as to allowable cash distributions. For example, Section 8 new construction properties which received notification of selection after 11/5/79 are limited to a distribution of six percent of equity for elderly projects and ten percent of equity for family projects. An increase in the allowable distribution would provide an immediate and positive effect on rate of return. An increase in allowable distributions would also maximize the focus on management of these properties, as only through more efficient financial operations and physical maintenance would funds be available to make such distributions.

A redefinition of equity, a significant factor in the distribution formula, would provide an even further incentive. Section 8 regulations define equity as "10 percent of the replacement cost of the part of the project attributable to

dwelling use accepted by HUD at cost certification". A recalculation of equity based on current market value would accomplish a great deal in terms of recognizing the real economics of these properties. We have attempted to deal here with practical solutions which we believe will translate into preservation of inventory and meet an essential criteria of minimal, if not zero, cost to the government.

According to recent HUD estimates in 1991 nearly 300,000 contracts on units subsidized with Section 8 certificates or vouchers are due to expire. This figure increases to a staggering 1,000,000 by 1994. We commend this subcommittee for addressing the impending crisis of expiring subsidies with the proposed allocation of rental credits to renew both tenant and and project-based contracts with "in kind" assistance. And while the attempt to smooth the required stream of appropriations is a valiant one, the desired effect of the Department of Housing and Urban Development publishing a plan for reducing year to year fluctuations in the levels of budget authority to be required over the subsequent five year period to renew expiring rental assistance contracts is unclear. Without a redirection of spending priorities, based upon current budget constraints, the conclusion of such a report will be meaningless without the support of the Administration and Congress to allocate the necessary funding levels.

Thank you for allowing us to appear before you today. NLHA has established a special committee to make additional comments and refine our suggestions, which shall be forwarded as the legislative process unfolds. Thank you for your efforts and consideration of our recommendations.

Senator CRANSTON. Thank you very, very much.

We will now proceed to John McCauley, deputy executive director, housing authority of Baltimore, representing the Council of Large Public Housing Authorities.

STATEMENT OF JOHN A. McCAULEY, DEPUTY EXECUTIVE DIRECTOR, HOUSING AUTHORITY OF BALTIMORE CITY, BALTIMORE, MD, ON BEHALF OF COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES

Mr. McCAULEY. Thank you, Mr. Chairman. I am John McCauley, deputy executive director of the housing authority of the city of Baltimore. I represent the Council of Large Public Housing Authorities. Thank you for the opportunity to testify before you today.

I am going to limit my remarks to underlining a few of the items that are in the act and some of our experience with than on a local level.

We very much support the idea of one program. Speaking as a local administrator of both the section 8 and the housing voucher program, it has been extremely difficult sometimes to explain to the public why we have two programs, one called certificates and one called vouchers. So the movement toward one program is an idea whose time came sometime ago.

Regarding the provision about payment of 30 percent of income, we can't underline too much how important it is to develop this program so that the tenants will consistently pay 30 percent (except under extraordinary circumstances) of their income for rent.

Our experience in Baltimore with vouchers is that better than 41 percent of our residents are paying in excess of 30 percent of their income for rent. National studies have shown that better than 50 percent of tenants with vouchers are paying in excess of 30 percent of their income for rent.

It is an important provision for families to have the stability of knowing what their rental payments are going to be and to have the—considering that these are low income families—disposable income to do the many other things that they are called on to do as a family.

I would like to underline how important the inspection program has been for us with regard to both the section 8 and the voucher program, and it is good to see it being continued in the rental credit program. Inspections have been important for both the Section 8 certificate and voucher programs and will be for the rental program as well, important for upgrading the stock of low income rental housing. It gives us a tool because we have not only the carrot but we also have the stick to prod landlords into doing what they need to do, and being able to inspect on an annual basis is, I think, one of the things that has made the certificate and voucher program the success that everyone agrees they have been.

Regarding the term of 15 years versus 5 years, we believe for project-based assistance to succeed there must be a 15-year provision if in fact we are going to be able to get the lending institutions, both state and private, to provide the funding necessary to

upgrade properties consistent with the rental levels that will be available under the rental credit program.

It is useful to point out, also, I think, that under the current statute the one-for-one replacement housing, which is going to be, we think, increasingly important under the findings of what we hope will be a national commission looking at distressed housing. Having a resource for creating one-for-one replacement that is not necessarily new development will be a critical matter in meeting what we think is an essential principle, and that is that low income housing should be replaced on a one-for-one basis where it exists and, at least in our community, it must not be lost as a resource.

Just as an aside, we have over 35,000 families waiting for housing assistance, and with very little turnover to meet that demand in our program.

The rent reasonableness test—we would just underline that this has been valuable to us and to other authorities throughout the country as a way of ascertaining that rents are what they should be for the neighborhoods in which they are located. Without it, assisted rentals would have an inflationary impact on other rents in the community, and we certainly don't want the section 8 certificate or voucher programs to do that, and we wouldn't want the rental credit program to do that. So we very strongly endorse the rent reasonableness test that is provided for in the act.

Finally, in closing, I would just say that we believe that PHA's, who have successfully overall managed the Section 8 certificate and voucher programs, should continue to administer the rental credit program. For one thing, having other agencies do this is going to be a matter of considerable confusion, we think, in communities. There will also, in our opinion, be a very strong tendency for community development agencies to want to put project-based assistance into new developments, much to the negative impact on families waiting on eligibility lists. The assistance will tend to go to families in place and people on waiting lists who aren't fortunate enough to live in units that get project-based assistance would suffer from that.

So we would like to see the act cleared to say that public housing authorities will be the recipients of the rental credit program funding and not agencies as such.

Thank you.

[The complete prepared statement of John McCauley follows:]

CLPHA

Council of Large Public Housing Authorities

**Testimony of
John McCauley,**

**Deputy Executive Director of the
Housing Authority of the City of Baltimore**

**on behalf of
Council of Large Public Housing Authorities
(CLPHA)**

**CONCERNING THE RENTAL CREDITS PROVISIONS OF
THE NATIONAL AFFORDABLE HOUSING ACT
(S.566)**

**before the
Sub-Committee on Housing and Urban Affairs,
U.S. Senate**

June 16, 1989.

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Main Office: Seven Marshall Street Boston Massachusetts 02108 (617) 742-3720**

CLPHA Testimony on Rental Credits, June 16, 1989, Page 2

Testimony on Rental Credit Assistance Provisions of
the National Affordable Housing Act

Before the

U.S. Senate Sub-Committee on Housing and Urban Affairs,
June 16, 1989

General

Mr. Chairman, I am John McCauley, Deputy Executive Director of the Housing Authority of the City of Baltimore.

I represent the Council of Large Public Housing Authorities. Thank you for the opportunity to testify before you today.

We are pleased the committee is taking this step forward on the nation's Section 8 program. There are currently two Section 8 housing assistance programs, Section 8 "existing" and vouchers. As you know, the Section 8 "existing" program is one of most successful programs for low-income Americans that this nation has ever had.

The Reagan Administration had tried unsuccessfully to replace it with the newer "voucher" program. Congress resisted the pressures from the administration, and this Committee has now introduced a program that takes the best of both programs and simplifies it into one program of housing assistance.

Rental Credit Assistance

Rent-Income Ratio and Rent Limitation

Provisions of previous programs.

CLPHA believes that the most important issue concerning the program is the amount of money that recipients of housing assistance will actually have to pay themselves.

The present "certificate" and "voucher" programs differ substantially in this regard.

Under the certificate program, families pay 30% of the adjusted monthly income and no more, regardless of the actual rent of the unit. The actual rent paid to the

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landlord must be no higher than the "Fair Market Rent" level established by HUD. The subsidy covers the difference.

Under the voucher program, the recipient household pays whatever difference exists between a "payments standard" that would be determined by HUD, and the actual rent. No attempt is made by the federal government to ensure that the result is a reasonably low rent-income ratio for the recipient.

The result has been that at least half the households that get vouchers end up paying more than 30% of their adjusted incomes (the current federal standard) for rent, and a substantial percentage of these recipients end up paying over 40, 50, and even 60% of their incomes for rent - even after receiving housing assistance. This is an intolerable situation, exactly what federal housing assistance programs were originally intended to overcome!

Furthermore, vouchers are an inequitable means of assistance due to the so-called "shopping incentive" that was designed to encourage households to seek units with low rents. The principal beneficiaries of the incentives are tenants who rent in place. These families often pay a very low percentage of their income for rent. The broad range of income paid by tenants is inequitable and we would not want it to continue in a new program.

Tenant Contributions

The provisions of your bill state that the new Rental Credit Assistance will pay the difference between the tenants' 30% of income contribution and the actual rent paid to the landlord (which may be up to 110% -- and in some cases 120% -- of the FMR). When, at the request of the recipients, the administering agency approves rents in excess of those levels, the recipients will pay the resulting difference.

We approve of, and commend those provisions.

We recommend that for the purpose of clarity, the Committee consider adding as the second sentence after (3)(B): "The additional amount that the tenant shall pay in such cases will be the amount by which the actual rent exceeds 110% of the FMR."

We also approve the provision that such "Excess rents", where tenants are paying the difference between the rent subsidy and the actual rent, be limited to 10% of all initial tenants leased each year. This will increase the importance of having accurate and up to date Fair Market Rents.

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We also are happy to see that rents will remain subject to a "rent reasonableness" test. This is an important check on excessive rents and "price gouging" that has been used by PHAs for both Section 8 certificate and voucher programs.

Above all, the Rental Credit program should ensure that rents paid by assisted families are reasonable and affordable.

Who will benefit from Rental Credit Assistance?

CLPHA concurs that the principal beneficiaries of the new Rental Credits program should be "very low-income families", which have been previously defined as those earning below 50% of the median income.

Your bill allows exceptions to this criteria only for project based rental credit assistance; previous standards of 80% of the median income (i.e. the federal "low income" standard) will be retained for individuals already being assisted.

In general, CLPHA accepts 50% of the median as the income eligibility provision, but would ask that you add a provision that allows up to 10% of the recipients to be in the 50-80% of median income range.

Term of Assistance

In the past, Budget Authority for both Section 8 "existing" and "mod rehab" (project based) certificates has been appropriated for 15 years, and HUD could therefore enter into Annual Contribution Contracts (ACCs) with administering agencies for up to this period.

In recent years, both Budget Authority and ACCs for Section 8 "existing" and "vouchers" have been limited to 5 years (maximum), and in some cases less than that.

Your bill would authorize ACCs for Rental Credits of 60 months (5 years), except under the provisions to "smooth" the fluctuations in renewing expiring contracts, for preservation activities and public housing replacement. These exceptions would benefit from some limit written, if not in the bill, then in report language.

15-year term requested for PBA.

In the past, CLPHA has always advocated a 15 year term for Section 8 housing assistance. CLPHA accepts a five year term for rental credit assistance issued to individual households but urges the Committee to recognize that 5 years is not long enough to attract additional assistance for a development project.

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Project based rental assistance may often require a commitment of up to 15 years, especially for development projects. Public housing authorities want to continue to develop housing for low-income families through a variety of local means.

Many PHAs, in the absence of federal funds have turned to state, local or private funds for development. Fifteen year terms for these developments is often essential to obtain the necessary local and state funding commitments. Fifteen year terms also ensure the low-income nature of the project, which is often an essential and sometimes legal requirement in getting funding commitments from other sources.

The provisions of the bill allow contracting agencies to contract for terms of more than five years, as appropriate, with no limitations on what a contracting agency may deem appropriate. Our concerns are that unless a 15 year term is clearly authorized for project based assistance, how can contracts be signed for such a term? Signing contracts on a "funds available basis" would diminish their appeal for local and state funds. Guarantees of funding based upon already appropriated funds, will reduce the number of families that can be immediately assisted.

Renewal of Expiring Contracts ("and smoothing" Provisions).

One of the purposes of the bill is to "provide for the orderly renewal of expiring rental assistance." This is a commendable goal.

The bill plans to "smooth out" the renewal of budget authority by ordering HUD to publish, within 30 days of the start of each fiscal year, a plan to reduce fluctuations in levels of renewal of budget authority required over each year. Also for this purpose HUD may authorize ACCs of less than 5 years.

CLPHA is pleased to see this goal stated in the bill. An orderly renewal process will prevent confusion and "lumpy" budget authority appropriations for rental assistance, such as we must currently deal with in the FY1990-1994 budget process.

Yet, we ask that the bill authorize ACCs of more than five years for this purpose, which would achieve the same effect of "smoothing" the renewal process but also give more time and predictability for making such changes. Current provisions for signing housing assistance payments with landlords would be eased with a longer and not a shorter

CLPHA Testimony on Rental Credits, June 16, 1992, Page 6

ACC. The bill has freely authorized ACCs of 5 and more years for project based assistance, for the preservation of federally assisted housing and for manufactured housing.

Allocation of Assistance through separate (not combined) ACCs.

The allocation of Rental Credit Assistance from each fiscal year appropriations will be made under separate ACCs.

We concur with this provision since combining two and more annual allocations in one ACC has caused considerable confusion and difficulties for public housing agencies administering the Section 8 certificate program. ACC terms did not reflect the Budget Authority of the allocations it contained, PHAs by regulation may not sign Housing Assistance Payment Contracts if less than a year remained before contract expiration.

The voucher program has avoided this confusion by using the method proposed in this bill.

Who will administer the Rental Credit Assistance program?

Throughout the history of the Section 8 certificate and voucher programs, Public Housing Authorities have received funds directly from HUD and have successfully administered these programs.

The new law would change that. Instead it would allocate Rental Credits to participating jurisdictions with annual contribution contracts going directly to public housing agencies. This system could result in (1) participating jurisdictions bypassing housing authorities and (2) there being multiple administrators of the rental credit program in the same area.

We think this unreasonable given the successful history of the public housing authorities. It is our view that tenant-based assistance, at a minimum, should continue to flow directly from HUD to PHAs. If HUD's record of allocating assistance is under question, then Congress should ordain that not only should the funds be allocated to the HUD Regions on the Fair Share basis, but the HUD Regions in turn should follow the same criteria in allocating to PHAs.

Moreover, if the new Rental Credits are to be distributed to other than PHAs, the resulting intermeshing of rental credits with units already under contract, will be chaotic.

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Secretary Kemp's recent proposal for cross-indexing Section 8 and conventional housing waiting lists, would be impeded by a decision to allocate assistance for the same clientele to several agencies within the same jurisdiction.

Formula Allocation for Rental Credit Assistance

CLPHA believes there would be serious practical problems in implementing the provisions of (e)(1) for the allocation of Rental Credit Assistance as it is written. Again, we recommend that if the Committee has questions regarding HUD's method of allocating assistance, that it impose a Fair Share distribution formula through the HUD Regions to the PHAs.

Administrative Fees

For the past several years there has been considerable debate on the subject of administrative fees for Section 8 certificates and vouchers. CLPHA believes that the bill provides an equitable sum at 8.2% of the fair market rental for a 2-bedroom unit to meet the costs incurred in administering the rental credit program.

CLPHA also agrees there is a need for a preliminary expense fee, a "hard-to-house" fee and a discretionary fee and believes the bill provides adequate amounts to meet the additional costs incurred in the administration of rental housing assistance program.

Submitted under a separate cover is CLPHA's analysis and rebuttal of the June 1988 report by Abt Associates, Inc. on "Administrative Costs of the Housing Voucher and Certificate Programs." CLPHA's general finding was that the report shed no light on the question of whether or not administrative fees were adequate to successfully accomplish the job that needed to be done.

Inspections

An initial inspection of each unit before any housing assistance payment is made to determine that it meets HUD standards for decent, safe and sanitary housing is required under Rental Credit Assistance, as it has been with Section 8 certificates and vouchers. Subsequent annual inspections are also required for all units under contract.

CLPHA has found in the past that the inspection of units prior to making any assistance payments does ensure that families assisted do not live in substandard housing, which would defeat the purpose of the program.

Summary

CLPHA Testimony on Rental Credits, June 16, 1992, Page 8

One question that I will make in closing my testimony is whether the bill should address the question of administering three programs consecutively?

CLPHA commends the work of the Committee in taking the best of the Section 8 "existing" and the voucher programs, and combining them into Rental Credits. CLPHA is pleased that at last there will be one housing assistance program, derived from the certificates and vouchers currently used. The public will be the beneficiary of this important reform.

Thank you for allowing me this opportunity to speak.

Appendix I

	<u>Certificates</u>	<u>Vouchers</u>	<u>MAHA</u>	<u>CLPHA</u>
Payment Standard	No	Yes	No	No
Fair Market Rent	Yes	No	Yes	Yes
Limitation on Tenant Contributions	Yes	No	Yes	Yes
"Rent Reasonableness" Test	Yes	Yes	Yes	Yes
Terms of Assistance				
Tenant-based	15 years*	5 years	5 years	5 years
Project-based	15 years	N/A	5+ years	15 years
Single ACC for each Annual Allocation	No	Yes	Yes	Yes
Shopping Incentive	No	Yes	No	No
Administrative Fees	8.2%	8.2%	8.2%	8.2%

* For FY89 tenant-based certificates were allocated with a 5 year term of assistance.

Senator CRANSTON. Thank you very much.

I would like to comment on one aspect of the ground you covered.

There has been some misinterpretation of the role of PHA's in administering their proposed rental credits. It is the intent of the legislation that, first, PHAs will continue as the local administrators of the rental credits and, second, that HUD will continue to be the administrator of contracts with PHA's.

The only change anticipated in the bill, then, is that participating states and localities will have more predictability in the amount of assistance they will receive and that they will have some say in the allocation of rental credits within their area.

Mr. McCAULEY. OK, thank you.

Senator CRANSTON. Thank you.

Mr. Van Ness.

Mr. Van Ness, let me say, is the executive director of the housing authority of Jefferson County, Louisville, KY, representing the National Association of Housing and Redevelopment Officials.

STATEMENT OF JOHN VAN NESS, EXECUTIVE DIRECTOR, HOUSING AUTHORITY OF JEFFERSON COUNTY, LOUISVILLE, KY, ON BEHALF OF NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

Mr. VAN NESS. Senator, I assure you that if I had asked Senator Ford to be here he would have commended me to you.

Senator CRANSTON. May I ask you to suspend for a moment?

Mr. VAN NESS. Yes, sir.

Senator CRANSTON. I have a call from another Senator I have to take. Just a second.

Senator PRESSLER. I might use the time to ask a question on another subject, if I could.

Senator CRANSTON. Yes, please go ahead.

Senator PRESSLER. I will just interject here, and this is a little change of direction. But I understand the housing voucher program has worked well in my home State of South Dakota. Many of you are probably not very familiar with what goes on in South Dakota. But some of you have indicated that it does not work well in your area.

Can you account for the different views or expand upon that a bit? Does anybody want to take that on?

Mr. VAN NESS. The groups that I have worked with—and this has been on the NAHRO committee—I don't think any of us would say that vouchers have not worked well. We began with certificates and certificates worked extremely well. The community became familiar with certificates. Landlords were familiar with them, participants were familiar with them.

We then sprang upon them a new program, a voucher program. Many of us who had been in the field questioned why the change and saw some serious limitations in the program. We were then charged with presenting to our applicants the option: Do you want a certificate or do you want a voucher?

The community had had the experience with the certificate. We saw an immediate reticence to accept a voucher, pure and simply

because it was an unknown quantity. And explaining the program, the certificate had the perception of being more or less permanent with a 15-year commitment. A voucher had a 5-year commitment. It is simply seen to be a more attractive type of thing.

As soon as we said that you are allowed to make additional payments to the landlord for your rent, we had to immediately unexplain all of the things that we had been saying about not making side payments, don't make any side deals or anything else. We had a slow lease-up with the voucher program. We almost have full utilization now, but it has taken a lot of very positive selling from our standpoint.

So the program works.

Mr. McCAULEY. Senator, I would say, speaking for Baltimore City, the program has worked there as well, but admittedly with some of the confusion that Mr. Van Ness has mentioned in describing it for applicants and for landlords and the public in general.

But I think the strongest indictment of the voucher program is its potential for exacerbating the cost problem for tenants. It is from that point of view, I think, that the most damaging criticism has been made about it.

Now, that may not be true in all areas, but as I pointed out in my testimony, in our city 41 percent of the tenants are paying more than 30 percent of their income for rent, some paying as much as 50, 60, and 70 percent, under a program in which they are supposed to be getting assistance, and we just think it is extremely important that there be a cap on that, and the rental credit program does that in a way that recognizes that in some cases there will be choice decisions to be made by tenants that will permit them to pay more than 30 percent. But as a general principle, tenants will be insulated from that really serious impact on their income.

Ms. McCULLA. If I might expand on what Mr. McCauley said.

I am a legal aids lawyer, and I represent tenants, obviously, and we have found over across the river in Alexandria that it is easier to use your voucher and your certificate if you want to go into an apartment because there are a couple of large apartment complexes that have decided to take the vouchers, but not houses.

So families, true families with numbers of children, really are not being able to use the vouchers well.

Our tenants have the same problem that he referred to, also. Most of them, more than 50 percent, pay more than 34 percent or even 40 percent of their income to just rent under the voucher program, and that is too high because the complaints that we get in our office are I have to pay this rent and the place where I am living is okay, but because I have to pay 40 percent or even 50 percent of my income as rent I can't pay for my medical care, I have to get my clothes from the Salvation Army, everything else goes so that we can have a decent roof over our head.

So I would very strongly support the limitations on paying 30 percent of your income as rent. Otherwise, it just doesn't make the voucher program do what it is supposed to do, or any other rental assistance program, which is to try to help people live in housing that is affordable to them.

Senator PRESSLER. Good. I thank you. That is a concern of mine, and I will put this into recess until Senator Cranston returns, and I thank you.

[Recess.]

Senator CRANSTON. Excuse me. If you would now proceed with that statement you just started.

Mr. VAN NESS. Senator, I have been the Director of the Housing Authority in Jefferson County since 1981. Prior to that, I was in Jacksonville, Florida, which was one of the experimental housing allowance cities, and we provided rental assistance to some 700 families there.

I was chairman of the NAHRO committee which drafted the position paper "Flexible Rental Assistance Program," which I hope has helped to set some of the framework for this.

We manage in Jefferson County some 3200 Section 8 certificates, 242 public housing units, and 435 vouchers.

As you know, the National Association of Housing and Redevelopment Officials, NAHRO, is a 55-year-old professional membership organization of housing and community development officials, which includes commissioners, throughout the United States who administer HUD programs at the local level.

Our membership, numbering 8,500, has long participated in the creation and fine-tuning of national housing policy and programs. We are pleased to have participated in this process through informal briefings and meetings with you and your staff.

For several years NAHRO has promoted the position that a flexible program which merges the best features of the section 8 certificate and voucher programs was needed. This position was first outlined in our document, "Keeping the Commitment: An Action Plan for Better Housing and Communities for all." We are pleased that this act reflects much of what NAHRO recommended in that document.

I would like to take the remainder of my time to comment on specific provisions within title IV.

ELIGIBILITY

With respect to whom the rental credit will serve, we urge you to restore the working poor as eligible beneficiaries. The proposed rental credits are limited to the poorest of the poor, those whose incomes are at or below 50 percent of the area median income. The "working poor," those with incomes between 50 and 80 percent of the median, are left out in the cold by the program.

These folks will then be forced to pay more than 30 percent of their income for rent, probably more than 50, at the expense of other daily living necessities. If they are unable to bear this heavy rent burden, they may end up doubled up, split up, or homeless.

This economic segregation ignores one of the purposes of the section 8 program, to foster independence and to help families until they are able to afford to live unassisted in the private housing market.

We support the provision in section 422 encouraging private landlords to renew participation in the rental credit program. We believe negotiated contract lengths will serve the interests of all af-

fecting parties and avoid future bulges in expiring use such as confront us now.

We also support requiring the Secretary to prepare a plan for reducing the year-to-year fluctuations in the amount of budget authority necessary to renew expiring contracts. We agree that authorizing the Secretary to enter into annual contributions contracts for less than five years will help smooth out this process.

ALLOCATIONS

We are concerned about a rental credit formula which appears to rely heavily on the States as a conduit for federal funds which are ultimately used at the local level. Past experience clearly shows the efficiency and timeliness of housing assistance delivered at the local level. States should not be recipients of funding for a program where the rental credit contract is between the local housing authority and private landlords. An extra layer of bureaucracy and paperwork involved in a passthrough of Federal funds is costly, time-consuming, and counter-productive.

As we have previously stated in hearings before your committee, we believe that the allocation formula should be based on a fair share distribution of rental credits to HUD regions first and then to PHAs based on need and performance.

EXPIRING CONTRACTS

We are concerned that there appears to be no provision for funds to renew expiring contracts in the act. We suggest that a separate line item be included in the act that specifically provides budget authority for expiring contracts for the next 2 fiscal years.

TRANSITION PERIOD

New national housing legislation requires considerable startup time. Assuming that appropriations are in place, HUD must write regulations, OMB must do their thing, localities must write housing strategies, and entities must be in place to contract with private landlords and tenants.

Therefore, we believe a transition period longer than the one year provided for in the bill is necessary to continue efficient operations and to ensure that rental assistance is uninterrupted. We suggest a 2-year reauthorization of the Section 8 program to ensure smooth transition.

SUPPORTIVE HOUSING—RENTAL CREDITS

We support the authorization of rental credits to cover the operating costs of supportive housing for the frail elderly. However, we believe the requirement for 40 years of low income use for supportive housing should be contingent on the continuation of 40 years of rental assistance rather than the 20 years provided for in the bill. In other words, the period for low income use should be consistent with the terms of rental assistance.

Thank you, Mr. Chairman.

You invited me here to speak to provisions of title IV. Personally, I would also like to commend you for the provisions in title V,

providing a special set-aside of rental assistance for the handicapped.

I have been fortunate to serve on the board of the Kentucky Schizophrenia Foundation, which has developed section 202 housing as well as private housing for the long-term mentally ill. This special population, many of whom are among our homeless, need the combination of rental assistance and supportive services, as we are now doing and as you have proposed.

Thank you, sir.

[The complete prepared statement of John Van Ness follows:]



NAHRO

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**PROPOSED RENTAL CREDIT PROGRAM
OF
THE NATIONAL AFFORDABLE HOUSING ACT
(S.566)**

Statement

of

JOHN VAN NESS

**Executive Director
Jefferson County Housing Authority
Louisville, Kentucky**

on behalf of the

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

before the

**Subcommittee on Housing and Urban Affairs
of the
Senate Committee on Banking, Housing, and Urban Affairs**

Friday, June 16, 1989

The National Association of Housing and Redevelopment Officials is a 55-year-old professional membership organization of housing and community development officials throughout the United States who administer HUD programs at the local level. Its membership numbering 8,000 has long participated in the creation and fine-tuning of national housing policy and programs.

Helen L. Saune, President, Apolonio Flores, Senior Vice President, Michael A. Garcia, Jr., Vice President-Commissioners, William H. Garrett, Vice President-Community Revitalization and Development, Jack Quinn, Vice President-Housing, Michael F. Hanratty, Vice President-Member Services, Ophelia B. Bengel, Vice President-Professional Development, Richard Y. Nelson, Jr., Executive Director

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, THANK YOU FOR THE OPPORTUNITY TO APPEAR HERE TODAY. MY NAME IS JOHN VAN NNESS. I HAVE BEEN THE EXECUTIVE DIRECTOR OF THE JEFFERSON COUNTY HOUSING AUTHORITY IN LOUISVILLE, KENTUCKY SINCE 1981. PRIOR TO THAT I SERVED AS THE DIRECTOR OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT FOR JACKSONVILLE, FLORIDA. IN THAT CAPACITY I WAS RESPONSIBLE FOR ONE PART OF THE EXPERIMENTAL HOUSING ALLOWANCE PROGRAM, RESULTING IN RENTAL ASSISTANCE TO SOME 700 FAMILIES PRIOR TO THE ESTABLISHMENT OF THE-SECTION 8 CERTIFICATE PROGRAM. I ALSO SERVED AS THE CHAIRMAN OF THE COMMITTEE THAT DRAFTED THE NAHRO "FLEXIBLE RENTAL ASSISTANCE PROGRAM."

WE MANAGE MORE THAN 3,200 SECTION 8 CERTIFICATES, 4,164 PUBLIC HOUSING UNITS, AND 435 VOUCHERS AT OUR AUTHORITY.

I COMMEND YOU, MR. CHAIRMAN, FOR THE HARD WORK YOU AND YOUR STAFF HAVE DONE IN CRAFTING THE "NATIONAL AFFORDABLE HOUSING ACT."

AS YOU KNOW, THE NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS - NAHRO - IS A 55 YEAR OLD PROFESSIONAL MEMBERSHIP ORGANIZATION OF HOUSING AND COMMUNITY DEVELOPMENT OFFICIALS THROUGHOUT THE UNITED STATES WHO ADMINISTER HUD PROGRAMS AT THE LOCAL LEVEL. OUR MEMBERSHIP, NUMBERING 8,500, HAS LONG PARTICIPATED IN THE CREATION AND FINE TUNING OF NATIONAL HOUSING POLICY AND PROGRAMS. WE ARE PLEASED TO HAVE PARTICIPATED IN THIS PROCESS THROUGH INFORMAL BRIEFINGS AND MEETINGS WITH YOU AND YOUR STAFF.

FOR SEVERAL YEARS NAHRO HAS PROMOTED THE POSITION THAT A FLEXIBLE PROGRAM WHICH MERGES THE BEST FEATURES OF THE SECTION 8 CERTIFICATE AND VOUCHER PROGRAMS WAS NEEDED. THIS POSITION WAS FIRST OUTLINED IN OUR DOCUMENT "KEEPING THE COMMITMENT: AN ACTION PLAN FOR BETTER HOUSING AND COMMUNITIES FOR ALL." WE ARE PLEASED THAT THIS ACT REFLECTS MUCH OF WHAT NAHRO RECOMMENDED IN "KEEPING THE COMMITMENT."

I WOULD LIKE TO TAKE THE REMAINDER OF MY TIME TO COMMENT ON SPECIFIC PROVISIONS WITHIN TITLE IV - AFFORDABLE RENTAL HOUSING - OF THE NATIONAL AFFORDABLE HOUSING ACT.

ELIGIBILITY

WITH RESPECT TO WHOM THE RENTAL CREDIT PROGRAM WILL SERVE, WE URGE YOU TO RESTORE THE "WORKING POOR" AS ELIGIBLE BENEFICIARIES. THE PROPOSED RENTAL CREDITS ARE LIMITED TO THE POOREST OF THE POOR -- THOSE WHOSE INCOMES ARE AT OR BELOW 50 PERCENT OF THE AREA MEDIAN INCOME. THE "WORKING POOR -- THOSE WITH INCOMES BETWEEN 50 AND 80 PERCENT OF THE MEDIAN -- ARE LEFT OUT IN THE COLD BY THE PROGRAM.

THESE FOLKS, THEN, WILL BE FORCED TO PAY MORE THAN 30 PERCENT OF THEIR INCOME FOR RENT - PROBABLY MORE THAN 50 PERCENT - AT THE EXPENSE OF OTHER DAILY LIVING NECESSITIES. IF THEY ARE UNABLE TO BEAR THESE HEAVY RENT BURDENS, THEY MAY END UP DOUBLED-UP, SPLIT UP, OR HOMELESS.

THIS ECONOMIC SEGREGATION IGNORES ONE OF THE PURPOSES OF THE SECTION 8 PROGRAM -- TO FOSTER INDEPENDENCE AND HELP FAMILIES UNTIL THEY ARE ABLE TO AFFORD TO LIVE UNASSISTED IN THE PRIVATE HOUSING MARKET.

LENGTH OF CONTRACT

WE SUPPORT THE PROVISION IN SECTION 422 ENCOURAGING PRIVATE LANDLORDS TO RENEW PARTICIPATION IN THE RENTAL CREDIT PROGRAM. WE BELIEVE NEGOTIATED CONTRACT LENGTHS WILL SERVE THE INTERESTS OF ALL AFFECTED PARTIES AND AVOID FUTURE BULGES IN EXPIRING USE SUCH AS CONFRONT US NOW.

WE ALSO SUPPORT REQUIRING THE SECRETARY TO PREPARE A PLAN FOR REDUCING THE YEAR-TO-YEAR FLUCTUATIONS IN THE AMOUNT OF BUDGET AUTHORITY NECESSARY TO RENEW EXPIRING CONTRACTS. WE AGREE THAT AUTHORIZING THE SECRETARY TO ENTER INTO ANNUAL CONTRIBUTIONS CONTRACTS FOR LESS THAN FIVE YEARS WILL HELP SMOOTH OUT THIS PROCESS.

ALLOCATIONS

WE ARE CONCERNED ABOUT A RENTAL CREDIT FORMULA WHICH APPEARS TO RELY HEAVILY ON THE STATES AS A CONDUIT FOR FEDERAL FUNDS, WHICH ARE ULTIMATELY USED AT THE LOCAL LEVEL. PAST EXPERIENCE CLEARLY SHOWS THE EFFICIENCY AND TIMELINESS OF HOUSING ASSISTANCE DELIVERED AT THE LOCAL LEVEL. STATES SHOULD NOT BE RECIPIENTS OF FUNDING FOR A PROGRAM WHERE THE RENTAL CREDIT CONTRACT IS BETWEEN THE LOCAL HOUSING AUTHORITY AND PRIVATE LANDLORDS. AN EXTRA LAYER OF

BUREAUCRACY AND PAPERWORK INVOLVED FOR A PASS-THROUGH OF FEDERAL FUNDS IS COSTLY, TIME-CONSUMING, AND COUNTERPRODUCTIVE.

AS WE HAVE PREVIOUSLY STATED IN HEARINGS BEFORE YOUR SUBCOMMITTEE, WE BELIEVE THAT THE ALLOCATION FORMULA SHOULD BE BASED ON A FAIR SHARE DISTRIBUTION OF RENTAL CREDITS TO HUD REGIONS FIRST AND THEN TO PHAs BASED ON NEED AND PERFORMANCE.

EXPIRING CONTRACTS

WE ARE CONCERNED THAT THERE APPEARS TO BE NO PROVISION FOR FUNDS TO RENEW EXPIRING CONTRACTS IN THE ACT. WE SUGGEST THAT A SEPARATE LINE ITEM BE INCLUDED IN THE ACT THAT SPECIFICALLY PROVIDES BUDGET AUTHORITY FOR EXPIRING CONTRACTS FOR THE NEXT TWO FISCAL YEARS.

TRANSITION PERIOD

NEW NATIONAL HOUSING LEGISLATION REQUIRES CONSIDERABLE STARTUP TIME, ASSUMING THAT APPROPRIATIONS ARE IN PLACE. HUD MUST WRITE REGULATIONS, OMB MUST DO THEIR THING, LOCALITIES MUST WRITE HOUSING STRATEGIES, AND ENTITIES MUST BE IN PLACE TO CONTRACT WITH PRIVATE LANDLORDS AND TENANTS.

THEREFORE, WE BELIEVE A TRANSITION PERIOD LONGER THAN THE ONE YEAR PROVIDED FOR IN THE BILL IS NECESSARY TO CONTINUE EFFICIENT OPERATIONS AND TO ENSURE THAT RENTAL ASSISTANCE IS UNINTERRUPTED. WE SUGGEST A TWO YEAR REAUTHORIZATION OF THE SECTION 8 PROGRAM TO ENSURE A SMOOTH TRANSITION.

SUPPORTIVE HOUSING -- RENTAL CREDITS

WE SUPPORT THE AUTHORIZATION OF RENTAL CREDITS TO COVER THE OPERATING COSTS OF SUPPORTIVE HOUSING FOR THE FRAIL ELDERLY.

HOWEVER, WE BELIEVE THE REQUIRMENT FOR 40 YEARS OF LOW INCOME USE FOR SUPPORTIVE HOUSING SHOULD BE CONTINGENT ON THE CONTINUATION OF 40 YEARS OF RENTAL ASSISTANCE, (RATHER THAN THE 20 YEARS PROVIDED FOR IN THE BILL). IN OTHER WORDS, THE PERIOD FOR LOW INCOME USE SHOULD BE CONSISTENT WITH THE TERMS OF RENTAL ASSISTANCE.

THANK YOU MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE.

Senator CRANSTON. Thank you very much, Mr. Van Ness.
 Our next witness is John Simon, president, National Housing Conference, Washington, DC.
 We welcome you.

**STATEMENT OF JOHN SIMON, PRESIDENT, NATIONAL HOUSING
 CONFERENCE, WASHINGTON, DC**

Mr. SIMON. I want to thank you, Mr. Chairman, for the opportunity to testify here. I am pleased to see how far you and your colleagues have carried the National Affordable Housing Act. I remember that about 17 months ago when both you and Senator D'Amato were awarded the Housing Person of the Year Award by the National Housing Conference, and I remember the screen you had in the Capitol Hilton Hotel where you outlined what your program might be, and I must congratulate you for having brought it to the point where it is actually a bill and implementable.

I would like to say to you that there are many different opinions about what should be in the bill and what should not be. The National Housing Conference, which represents a wide spectrum of members in the financial community, national homebuilders, public housers, nonprofits, religious institutions, and many others, feels that above all you should move your bill forward. You are not going to please everybody, and we hope you are not going to try because you would have even less here than you have now if you did.

But I would like to suggest to you that time is of the essence now, and we don't want to say in 1995 that this bill was too late and too little.

So we see this as a first step in moving forward in the program.

I have some specific comments to make, and to the extent I have time.

Our first comment is that we want to be sure that those rental assistance contracts which are expiring will be renewed, that they will be renewed on the same baseline method that they were done in fiscal 1989 and the same way that the budget resolution was treated.

We are concerned also that there is a plan to convert certificates to section 8—vouchers to section 8 certificates. For all the reasons given before, we believe in most of the cities and most of the large communities section 8 certificates are a better program, but whatever you call it, the 30 percent rent to income ratio must be maintained, albeit we favor the 25-percent rollback. But at least 30 percent.

The affordable issue that Senator D'Amato spoke about is the main issue now in this country. People can't afford housing anymore. They are spending an inordinate amount of their income for housing. Their quality of life is being reduced, and as the press said the other day, the standard of living of so many Americans will be reduced because they have to spend so much more money for rent or for housing costs.

We would like to address the rental credit concept as proposed in your legislation. It would rewrite the section 8 of the United States Housing Act. Without going into details, we urge you that caution

be exercised in making such wholesale changes because of our concern that a whole new set of rules would make more complicated what is already a complicated set of programs and further would delay the implementation of the things that you are proposing.

NHC has always believed that a limitation of housing assistance to those at 50 percent of the median or below is inappropriate for all the reasons that were given by the prior speakers in connection with public housing. We think an income mix is important. It is the only way that viable housing can be maintained, can be managed, whether it be private or public.

We of course would like the extension of the terms to 15 years, especially where the assistance is project based. Otherwise, many owners will not be induced to be in the program, continue the program, and you will have the kind of defaults which you really can't afford.

We would also like you to address again once more the tenant preferences. We feel strongly that it is important to encourage an assisted income mix, not only for those presently in the program but for those that are entering the program.

We also strongly believe that all efforts should be made to encourage owners of projects receiving section 8 assistance for their tenants to continue under the project to the end of the full term, notwithstanding the option of some of the owners to leave the program every five years.

I think the last thing that we need is more abandonment of affordable housing and more market rate housing. Market rate housing is available in most localities now. It is just that people can't afford it.

And last, we would like to say that your rental assistance program and the programs you are proposing are very much dependent on increasing the housing stock. As long as the housing stock is so limited and so little housing is available, the rental assistance program by whatever name you call it will not be able to service the increasing number of people who need it and the increasing number of immigration that we will take into this country, and if you read what is happening in Hong Kong, in the Far East, in other countries, the population of this country will sharply increase, that will put additional pressure on the housing market, and we urge you to take a look while you do this not only at the rental assistance program, which I think by and large is good, but also by increasing the supply of housing.

Last, a relevant comment, we oppose the Commission on Public Housing, not because its concept isn't good, but because it is another commission which we think is the last thing that Washington, DC and the Administration and Congress needs. We need action, not studying.

Thank you.

[The complete prepared statement of Mr. Simon follows:]



NATIONAL HOUSING CONFERENCE, INC. 

STATEMENT OF
THE
NATIONAL HOUSING CONFERENCE
ON
THE NATIONAL AFFORDABLE HOUSING ACT
BEFORE THE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

June 16, 1989

JOHN SIMON
President

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JULIETTE B. MADISON
Executive Director

Mr. Chairman and Members of the Subcommittee, my name is John Simon. I am the President of the National Housing Conference and I appreciate this opportunity to appear before you today on behalf of NHC and to present NHC's thoughts on the National Affordable Housing Act (S. 565 and S. 566).

As I stated in my statement to the Subcommittee on September 22, 1988, we applaud the Subcommittee for its efforts to place housing, once again, high on the nation's priority list. At that time, we were presenting our views on the Affordable Housing Act concept papers, which had been prepared by the Subcommittee staff.

We are pleased that those proposals of the staff have now been refined and put in a bill which has been introduced by the Chairman and Ranking Minority Member of this Subcommittee and, I understand, about 40 other members of the Senate. We commend you on this continued, forward progress and are pleased to see that many of our recommendations of last September have been reflected in the legislation now pending before you.

We still, however, have some significant concerns about portions of the bill. These concerns are principally those expressed in our statement of September 22, and not reflected in the introduced bill. To some extent, they are also set out in the Legislative Policy of the National Housing Conference, adopted at its Annual Meeting on May 8, 1989. I have attached a copy of that Policy Statement and commend it to your attention.

Established 1931 to promote better communities and decent homes for all Americans

1126 SIXTEENTH ST., N.W.

WASHINGTON, D.C. 20036

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While our differences are in approach, not in the goals of assuring decent, affordable housing for all Americans, to which we all subscribe, we recommend that the Subcommittee especially consider the concerns we have expressed about establishing a brand new, housing-production delivery system, to be administered solely by state and local governments through an entirely new entity within HUD.

We have called for a two-pronged, assisted-housing delivery system -- one operating through state and local housing agencies and the other through the provision of assistance directly to those who will develop and own the housing, whether they be nonprofit, cooperative, public or private, profit-motivated entities. These two approaches should complement each other and assure that low and moderate income housing assistance will be available in those communities where, for any one of several reasons, State and/or local government cannot, or chooses not to, function.

With your invitation to appear at this hearing, you enclosed a list of several suggested issues you wished to address at today's hearing. These issues involve both public housing matters and rental assistance matters. I should like to address, first, the rental assistance issues, since that is the panel on which I am now appearing. I will then offer some thoughts with respect to the public housing issues.

The first rental assistance issue involves the impending expiration of present rental assistance contracts, presumably those under the various forms of the Section 8 program. Starting in fiscal year 1991, contracts for hundreds of thousands of units assisted under the Section 8 certificate and voucher programs will begin to run out. Most of these contracts will have been in place for fifteen years, although all voucher contracts and some certificate contracts will have had only five-year terms.

We believe strongly that these contracts should be renewed, at least for another term equal to their original term. In other words, fifteen-year contracts should be renewed for fifteen-year periods and five-year contracts should be renewed for at least another five years. We do not believe that this "in-kind" renewal approach should be jeopardized because of Budget Authority calculation methods; instead, these renewals should be treated as within the base-line, just as those in the recently passed FY 1990 Budget Resolution were treated.

The amount of annual appropriations needed to fund these renewals should show little, if any, change. Therefore, the impact on the budget deficit should be minimal. We cannot attempt to reduce our budget deficit by failing to continue ongoing assistance for low and moderate income housing.

We also strongly object to any conversions of certificates to vouchers or any change from project-based certificates to free-standing certificates. It is very important that Section 8 certificates attached to projects under HUD's Loan Management Set Aside Program not be detached from those projects, unless we wish to see a significant number of projects go into default and be assigned to HUD, with all the attendant adverse budgetary consequences.

The next issue you asked us to address is the rental credit concept set out in the proposed legislation. The bill would rewrite Section 8 of the United States Housing Act of 1937. I question the need to rewrite completely this existing statute, which has formed the basis for providing assistance to hundreds of thousands of housing units over the past fifteen years. Where precedents for interpreting existing law have become accepted and understood by the many thousands of persons and entities who must deal with the Section 8 Program on a daily basis, the bill would change the language pursuant to which these precedents have been established. In many instances, this bill will necessitate the establishment of new precedents and new interpretations, unsettling the administration of the Section 8 Program. While we realize that existing contracts would not be affected by the statutory changes, we still urge caution in making such wholesale changes because of our concern that a whole new set of rules would make more complicated what is already a complicated set of programs.

Some of our specific concerns with the proposed rewrite of Section 8 are as follows:

1. NHC has always believed that a limitation of housing assistance to those at 50 percent of the median or below is inappropriate. We urge that assistance be provided to those whose incomes are up to 80 percent of the median at the time of initial occupancy and not be limited to 50 percent of median, as proposed.
2. We are opposed to a five-year limit on contracts, especially where the assistance is project-based. A five-year term, even with a commitment to an owner to extend beyond the five years "contingent upon the future availability of rental credits as provided in appropriations Acts", is unlikely to induce many owners to set aside their projects for assisted occupancy or, even if they wish to do so, to enable them to obtain the necessary mortgage financing. We note with interest that manufactured home parks would be allowed to obtain fifteen or twenty year contract terms but not any other type of housing.

We urge that fifteen to twenty year terms be available for all types of housing.

3. NHC has long supported reduction of the rent-to-income ratio to 25 percent and we urge that that standard be reestablished for the Section 8 program.
4. The revised language would limit the allocation of rental credits to a specific project (except for renewal of an existing contract or for preservation of lower income housing assisted under other programs) to those projects rehabilitated or constructed without Federal assistance or with amounts made available under the HOP program. We trust that Federal assistance is not intended to include FHA mortgage insurance or market-rate loans by FmHA. If it does, we urge that those types of projects also be made eligible.

The next issue you asked us to address is that of tenant preferences. NHC feels strongly that it is important to encourage an economic mix in assisted housing. A project occupied solely by the lowest of the low income through the operation of a tenant preference system is a project, as experience has so frequently demonstrated, headed for trouble. We suggest, therefore, that you drop the proposed new Section 8 requirement that no more than 25 percent of a housing agency's allocation be allowed to be used for families who do not meet one of the stated preferences.

NHC believes strongly that all efforts should be made to encourage owners of projects receiving Section 8 assistance for their tenants to continue the projects under the Section 8 program to the end of the full term authorized under the project's HAP contract, notwithstanding the option available to some to leave the program every five years, and then to encourage those owners to continue their projects with new contracts at the end of their current terms. The direction given to HUD, in the Housing and Community Development Act of 1987, to permit rents to increase to the fair market rent level in order to encourage project owners not to opt out has been helpful and we urge that it be continued. Efforts to discourage opt-outs, however, should be based on incentives, not attempts to mandate owners to remain under Section 8 beyond their contractual terms, as compulsion will ultimately deter future, wide-spread participation in the housing programs.

I should now like to turn to some of the public housing issues addressed in the paper enclosed with the invitation to testify.

NHC believes strongly that the development of additional public housing, through either new construction or substantial rehabilitation or acquisition, where appropriate, should continue. In our attached Policy Statement we call for the funding of at least an additional 20,000 units for fiscal year 1990. This is considerably more than the approximately 6,200 units in both the regular and Indian public housing programs the legislation would authorize. One of the problems, of course, is that public housing is now paid for on a direct capital cost basis, as opposed to being paid for over the anticipated life of the project through federally guaranteed borrowings as had been the practice under the program from its inception until recent years. Perhaps, the Congress ought to consider returning to the earlier method, in order to avoid the huge initial capital costs involved and their immediate, severe effect on the Budget deficit.

We urge the Subcommittee not to impose any arbitrary limits on the size of public housing projects. A project of 100 units is far too small in many densely settled urban areas and yet may be too large in a small town or suburban area. The present statutory inhibition on building high-rise projects for families, except in those areas where appropriate, should be enough to assure that inappropriately sized projects are not constructed.

NHC has always supported the provision of supportive services for the occupants of assisted housing. We endorse, therefore, the concept behind Project Independence and urge the Congress to provide the funding necessary to provide these services, as well as the facilities necessary to house their provision. The provision of these facilities, however, should not be limited solely to those situations where outside funding for supportive services is available. Newly built projects and those being modernized should automatically provide space for the provision of services to the occupants of those projects and not await the determination of whether, and to what extent, funding will be available.

We are concerned that the proposed National Commission on Severely Distressed Public Housing is designed to focus, almost exclusively, on very large projects contained in high-rise, elevator structures. Such a focus and the attention that will be generated by the Commission can only serve to reconfirm in the public's mind a negative image of public housing, especially in our larger cities. We question whether a commission is needed to tell us that we have misbuilt some projects and mismanaged others, or that we have provided insufficient funding to maintain our large stock of public housing regardless of project size. Rather, we suggest that the Congress through HUD insist on competent management of the housing administered by all housing authorities and provide the dollars for maintenance and operation to back up that insistence.

NHC opposes the efforts to privatize the nation's public housing by selling that housing to its residents without regard for their ability to meet the housing's operating costs and without replacement of that housing on a unit-by-unit basis. We strongly support homeownership opportunities for all, but we also point out that many cannot handle, or do not want to handle, homeownership and yet are in dire need of decent, affordable housing. Additionally, we urge that any further significant expansion of tenant management of public housing projects be delayed until present studies are completed and have been objectively evaluated.

Again, I should like to congratulate the Subcommittee on its efforts to deal with the nation's many serious housing problems. Thank you for this opportunity to present our views. I will be glad to answer any questions you might have.

LEGISLATIVE POLICY
OF THE
NATIONAL HOUSING CONFERENCE
1989

INTRODUCTION

With 1989 came a new Administration in Washington and the promise of new leadership at HUD; a President who recognized that the thousands of homeless crowding the doorways and steam grates of our cities, large and small, were not there by choice and deserved the help of the Federal Government; and a Secretary of HUD who recognized that there were serious housing problems confronting the nation's low and moderate income families and elderly and was not afraid to say so.

1989 also brought the long-awaited product of the efforts begun two years earlier by the leaders of the Senate Housing Subcommittee, Senators Cranston and D'Amato, to develop comprehensive new approaches to assuring every American decent, affordable housing, the proposed National Affordable Housing Act; and comparable legislation in the House designed to expand significantly, but primarily through existing programs, the assistance available for meeting the nation's needs for low and moderate income housing and community and neighborhood development, the proposed Housing and Community Development Act of 1989 introduced by the Chairman and several other members of the House Subcommittee on Housing.

With 1989, however, also came, from the departing Administration, FY 1990 Budget proposals for HUD and FmHA little changed from the discredited and largely rejected proposals for the past several fiscal years; an endorsement by the new Administration of almost the entire FY 1990 Budget proposal (with the welcome exception of aid for the homeless for which full funding plus \$50 million was requested); and a continuation of the extraordinarily tight budget situation of the past several years, with no expectation of relief for housing from any significant cuts elsewhere or from the raising of additional revenues (any tax increase apparently being ruled out for the foreseeable future by the Administration).

1989 further brought a recognition, finally, of the true cost (approaching \$200 billion) of straightening out the financial mess overwhelming the nation's S&Ls as a consequence of almost eight years of regulatory neglect and laissez-faire supervision, with the result an even greater competition for the Federal Government's

limited dollars; and the apparent continuation of the past eight years of neglect of HUD and its programs.

Consequently, on the heels of these years of neglect, we find the nation with an ever growing need for decent, affordable housing and significantly reduced resources to address that need. It is essential that the Federal Government assume once again a major role in meeting our nation's housing and community development needs. It must support the resumption of significant assisted housing production, as well as major efforts to preserve the nation's present stock of low and moderate income housing. These efforts must include both the use of direct appropriations as well as reasonable tax incentives, and they must be designed to encourage the fullest possible participation by State and local governments in helping to fulfill these obligations.

This investment in housing should also be designed so as to strengthen the social fabric of communities, by stimulating the coordination and allocation of human resources which foster personal growth and self-sufficiency for the residents of those communities.

In addition, it is essential that the needs of our nation's urban and rural communities, many with aging infrastructures and obsolescent economic bases, not be ignored. Efforts should be continued and expanded wherever possible, to assure that every American not only has an opportunity for a decent home but also for a decent neighborhood in which to live.

Furthermore, any resolution of the S&L crisis should, as a minimum, result in the retention of a thrift industry dedicated to providing credit for housing.

In furtherance of these goals, we urge action by the Congress on the following individual proposals:

ADDITIONAL LOWER INCOME HOUSING

It is essential that programs be enacted and funded, which are capable of providing significant, annual additions to the stock of housing units available to the lower income. These programs should (1) be broad-based, providing assistance to profit-motivated developers, nonprofit organizations, cooperatives and to, or through, state or local housing agencies; (2) their subsidy mechanisms must be flexible enough to cover tenants of varying income levels but without sufficient income to pay their own way; and (3) the housing assisted should be preserved, with adequate subsidies, for lower income use for 40-50 years.

With these key components as guides, a two-pronged lower income housing production program should be enacted:

1. Assistance should be provided directly from the Federal Government (presumably HUD) to those who will develop and own the housing, thus assuring the widest possible dispersion of the funds, and with allocations being made based on the needs of the locality in which the housing is to be provided. Assistance should be flexible enough so as to permit all whose income does not exceed 80% of median to be assisted, allowing for greater economic integration than is possible under the present 50% of median limitation and helping to avoid over-concentration of the very poor in individual projects.

2. Assistance should also be provided to state and local housing agencies for use in conjunction with their own efforts to increase the supply of lower income housing, with the manner in which the funds are used limited only by the requirement that their use results in the production of lower income housing and by such few other safeguards as are needed to assure that monies are not misapplied, misappropriated or otherwise misused. This will permit the many innovative approaches, developed and possible of development at the state and local levels, to be assisted without excessive Federal regulation. Priority for receipt of these funds could, perhaps, be based upon the amount of funds contributed by the agency from its own resources or some other measure of local efforts, thereby rewarding those agencies, States, and localities which show a real interest in moving forward on meeting their lower income housing needs. Such a priority, however, is only reasonably possible if direct funding to housing owners is also provided. State and local housing agencies should also be encouraged to serve those at or below 80% of median income.

Aid under both programs should be able to be adjusted to meet increased operating costs as well as fluctuating tenant income levels. As experience with previous programs has demonstrated, this flexibility is essential to the long-term success of any assisted housing program. The ability to make these adjustments should also not be subject to the vagaries of the annual budget/appropriations process.

The budget impact of these new programs should be calculated in a manner consistent with the way in which the budget impact of other long-term Federal programs is calculated. Running out cost estimates for periods of twenty or forty years, and assuming, for

example, that all tenants at all times during such a period would have zero incomes, presents a false impression as to what the true cost of the housing assistance with respect to any specific project might be. It is no more valid to make such a calculation than it is to include, in the cost of acquiring a new federal office building, its estimated operating costs over its anticipated life.

We support a minimum funding level of 200,000 additional units of multifamily, rental housing during FY 1990 for families, the elderly and the handicapped. This funding should be allocated among the new production programs proposed, above, and the existing, proven programs of Public Housing; Section 202; Section 8 Moderate Rehabilitation; HoDAG; Indian and Native American Housing; Rental Rehabilitation; and, where there is an adequate supply of existing housing, Section 8 Certificates.

It is essential that these present programs, many of which serve discrete needs and segments of the housing market, be maintained with adequate funding and without unreasonable restrictions, especially during the period of one to two years it will take the proposed new production programs to be put in place. Accordingly, NHC makes the following recommendations with respect to these present programs.

Public Housing

- o We support, for fiscal year 1990, funding for at least 20,000 additional units of public housing without any artificial limit on project size.
- o We support full funding of the CIAP (modernization) program in FY 1990 at a level at least equal to the \$1.732 billion authorized in the Housing and Community Development Act of 1987 for FY 1989, to assure the preservation of the existing public housing stock and avoid the demolition of projects which can be rehabilitated. The amount provided should be high enough not only to permit a significant start on the removal of lead-based paint, but also to have a substantial impact on public housing modernization needs. We oppose any requirement for local matching of CIAP funding.
- o We support a level of operating subsidies under the Performance Funding System that will permit housing authorities to maintain units properly, to provide adequate staff for the management of their projects, to cover increased security activities in connection with drug-elimination efforts and to cover higher insurance

costs. Meeting these needs will require a substantial increase in appropriations over the \$1.62 billion provided for FY 1989.

Rural Housing: Indian and Native American Housing

- o We oppose the proposed termination of most FmHA housing and development programs in FY 1990 and the proposed partial replacement of these programs with Section 8 vouchers. Vouchers are an absolutely unworkable solution to the housing needs of rural America.
- o We support continued full funding, at a total level at least equal to FY 1989, for FmHA's housing programs, including the rural single-family and rental programs which primarily service low-income families. We continue our support for a reasonable authorization level for rural housing preservation, rural rental assistance, the self-help housing program, and 504 repair grants for elderly homeowners.
- o We support the continuation of existing housing programs for Indians and Native Americans and full funding of the infrastructure needed to support such housing. No housing should be constructed without adequate sanitary facilities.
- o We support appropriation of sufficient funds to assure adequate staffing of the FmHA housing programs.

Other Federally Assisted Housing Programs

- o We support continuation of the Section 8 Certificate and Moderate Rehabilitation programs and continue to oppose the Administration's efforts to replace those programs with a voucher program.
- o We also oppose all efforts, administrative and proposed legislative, to convert existing Section 8 certificates into vouchers, including HUD's proposal to convert expiring loan management set-aside certificates tied to specific projects into vouchers usable anywhere.
- o We support the Section 235 program and urge that it be revived with a substantial funding authorization. The program has been a most important tool for the provision of homeownership opportunities for moderate-income families.

- o We support continuation and full funding of the Nehemiah Program.
- o We support legislation which would broaden the scope of the Section 202 program and increase substantially the number of units assisted. Section 8 Fair Market Rents for new construction and substantial rehabilitation should be brought and kept current at levels that will permit 202 projects to proceed without delay. Present limits on the method of contractor selection by 202 project owners should be eliminated.
- o We support legislation (1) to remove the present statutory limitation, imposed in 1981 and moderated in 1987, on the percentage of families with incomes between 50% and 80% of the median that can be admitted to Section 8 and public housing projects, and (2) to restore to 25% the rent-income ratio applicable to tenants receiving public housing, Section 8, rent supplement, 236, and FmHA assistance. These steps, taken together, would improve the viability of these projects, foster increased economic integration and protect the public interest in the projects.
- o We support full funding in FY 1990 of the programs authorized by the McKinney Homeless Assistance Act at levels at least equal to those authorized in the McKinney Homeless Assistance Act Amendments of 1988. It is also essential that aid to the homeless move beyond the provision of temporary shelter to the provision of permanent housing and necessary supportive services aimed at promoting self sufficiency.
- o We support legislation to prevent the Department of Health and Human Services from restricting Federal reimbursement of rent payments in emergency shelters for the homeless. HUD and HHS should be required to coordinate their housing funding resources in order to maximize opportunities for the homeless.
- o Effective tax incentives need to be restored for all types of lower income housing. While helpful, the low-income housing tax credit is not sufficient in many instances to replace past tax incentives. Although many of the credit's technical problems were corrected in 1988's tax legislation, there are still several corrective changes needed to make the credit more workable. We urge correction of these remaining problems and a permanent extension of the tax credit beyond 1989.

If effective tax incentives are not restored, any new housing program, as well as existing programs, should be structured so as to reflect the need for sufficient other incentives to attract private investment. It needs to be recognized that a 6% return, in and of itself, is not sufficient under any foreseeable scenario and that direct program subsidies will need to be high enough to permit a return comparable to other investment opportunities.

PRESERVATION OF ASSISTED HOUSING

The preservation of the existing stock of federally assisted housing is one of the most important housing policy issues facing the Congress and the country today. The problem is a complex one. It concerns the imminent and long-term loss of federally assisted low and moderate income rental housing expected to occur principally as a result of three factors: (1) the prepayment of mortgages under HUD's 212(d)(3) BMIR and 236 programs and under the FmHA 515 program; (2) the termination or expiration of Section 8 subsidy contracts; and (3) the loss of assisted housing units due to deterioration resulting from age and from inadequate maintenance and capital improvements.

The two issues affecting the greatest number of projects are (1) the need for additional subsidies for projects where existing subsidy contracts are inadequate or will expire and (2) the need for maintenance or capital improvements for projects which lack sufficient project cash flow or reserves to maintain the projects in a decent, safe and sanitary condition.

The federally assisted housing stock includes approximately 2 million privately owned units. Of this total, over one million units may be lost from the inventory by 1995 and 1.8 million units by 2000, as a result of mortgage prepayments or the expiration of existing subsidy contracts.

In order to assure the preservation of as much of this existing inventory as possible and to protect the existing lower income tenants of this housing from displacement or rents in excess of their payment ability, NHC recommends the following policies and programs be adopted through regulatory and legislative changes, as appropriate:

Protect Tenants from Displacement

- o Project owners should be required to give tenants, HUD and state and local government agencies reasonable and

timely notice of the owner's intent to prepay a project mortgage, whether or not a conversion of use is immediately expected to occur.

- o HUD should be responsible for assisting in the relocation of tenants, where necessary, including providing relocation and rental assistance. It may also be appropriate to expect owners to provide some level of assistance in the actual physical relocation of tenants displaced by conversion.
- o Project-based, rental-assistance subsidies should be authorized and funded by Congress to assist tenants to stay in place whenever possible.
- o Where relocation is required and adequate housing stock exists in the local market, tenant-based, rental assistance should be provided. Additional funding should be authorized by Congress for this purpose.

Contract Rights Possessed by Project Owners

- o Owners should be permitted to prepay their mortgages without restrictions, other than reasonable and timely notice to tenants.

NHC's preferred approach to dealing with expiring mortgage prepayment limitations is a program of incentives, including tax benefits and/or direct subsidies, to induce owners to retain projects in the assisted housing inventory, in exchange for extended use restrictions. Key areas for consideration are:

- additional rental assistance, operating and capital improvement subsidies
- various tax incentives
- allowing owners to increase equity distributions through use of project cash flow or reserves.

Where possible, these incentives should be generic, so they can be applied to a range of projects meeting certain broad criteria and the need for project-by-project review avoided.

Prevent the Physical Deterioration and Loss of Assisted Housing Units

- o Capital improvement grants or low interest loans should be authorized and funded by Congress. Projects receiving these benefits should be subject to long-term, extended use restrictions.
- o HUD should authorize the use of excess project reserve funds to meet physical improvement needs.
- o Where necessary to fund needed improvements, secondary financing should be allowed.

Extend Expiring Subsidy Contracts and Address the Need for Additional Rental Assistance or Operating Subsidies

- o Congress should appropriate additional funds to extend expiring subsidy contracts for at least the remaining term of the project mortgage, in exchange for a comparable extension of use restrictions.
- o Additional subsidies should also be provided where necessary to ensure financial viability or to finance needed physical improvements.
- o Unused or recaptured budget authority should be used for these purposes, along with such other funds as may be necessary to fund and implement fully the incentives contemplated in the Emergency Low Income Housing Preservation Act of 1987.

COMMUNITY DEVELOPMENT BLOCK GRANTS

- o We support a FY 1990 appropriation for the CDBG program of at least \$3 billion. We continue to oppose any efforts to broaden the types of activities which can be undertaken with these funds, changes in distribution formulas or creation of new categories of recipients, or the absorption of other Federal programs (e.g., EDA, FmHA, etc.).
- o The Section 108 Loan Guarantee program has proven to be a most valuable and cost-effective tool for helping in local economic development and other CDBG efforts. We oppose the Administration's proposed termination of the program. We recommend a loan authorization level for FY 1990 at least equal to the level provided for FY 1989.

- o We support the continuation of the Section 312 rehabilitation loan program and oppose any further transfer of its unobligated balances to other programs. The program has operated for years through a recycling of funds received from the repayment of existing loans and we support the continuation of this cost-free means of sustaining this important program.

ECONOMIC DEVELOPMENT AND UDAG

- o We support a broad range of programs that provide jobs, infrastructure improvements, community revitalization and economic development for the nation's urban and rural communities. This includes specific support for jobs legislation and the UDAG program, which must be continued. We adamantly oppose the proposed termination of the UDAG program and the rescission in FY 1989 of \$50 million in contemplated recaptured grant authority. Any funds recaptured from previous years should be used to fund new projects.
- o The UDAG program has been most successful in promoting creative, private-public partnerships which are helping economically distressed cities to attract private capital for economic development. There is currently a greater demand than there are funds for viable, important projects. We support continued appropriations for UDAG in FY 1990.
- o We also suggest that consideration be given to an additional discretionary fund of \$25 million, which could be used by the Secretary to assist worthwhile, important projects which might not otherwise be funded due to aberrations in the statistics of the project selection system.
- o Any financial or tax assistance made available for enterprise zones should be provided on a broad-scale, national basis and not be limited to a relatively small number of sites and communities.

COOPERATIVE HOUSING

- o We support tax reform for cooperative housing which would provide the benefits of cooperative housing taxation to all cooperatives, including limited equity cooperatives benefitting from tax-exempt mortgage financing, whose principal purpose is providing housing for their members.

- o We request HUD promptly to issue workable regulations for FHA-insured share financing as provided in the 1983 Housing Act.
- o We urge that HUD expand the use of the Nonprofit Sponsor Assistance Program to include cooperatives providing low and moderate income housing under the 202 and other programs and that sufficient funds be appropriated for this modest expansion.

FAIR HOUSING; EQUAL OPPORTUNITY; AFFIRMATIVE ACTION

- o We support any housing and housing-related programs which further the goals for racial and economic integration. The drastic reduction of funding for new production makes it most difficult for low and moderate income families and handicapped persons to broaden their geographic opportunities for finding decent housing that they can afford. HUD should repeal those tenant-selection requirements for its 202 and other housing assistance programs which have the tendency to prevent reasonable racial and economic integration.
- o We support adequate appropriations to permit full-scale and prompt enforcement of the important amendments to the Fair Housing Act enacted in 1988.

MORTGAGE FUNDS

- o We support the maintenance and strengthening of existing programs and activities that direct credit resources into the housing mortgage market, such as FHA mortgage insurance and GNMA mortgage-backed security programs, without arbitrary caps on their use. We support the development of new mechanisms to assure that an adequate amount of mortgage funds are available for housing.
- o We reaffirm our long-standing support for FNMA and FHLMC as quasi-public, private corporations, dedicated to directing capital from the secondary markets into housing at reasonable rates. We oppose efforts to weaken these organizations by removing their governmental linkage or imposing so-called user charges. We also urge these organizations to deal with defaulted mortgages, especially in economically depressed areas, in a fashion that reflects the organizations' special Federal relationship.

- o We oppose proposed legislation to establish in the Treasury Department a Federal Credit Revolving Fund, into which there would be required to be transferred all assets, liabilities, etc., of any Federal credit program, such as FHA, VA, GNMA, etc., and into which, before any direct or guaranteed Federal loan could be made, there would have to be paid by the appropriate agency, such as HUD, an amount equal to the "implicit subsidy cost" associated with the loan or guarantee. Enactment of such legislation, requiring massive appropriations to cover theoretical subsidy costs, would sharply curtail, if not kill, the many Federal housing credit programs.
- o We urge that the authority to issue tax-exempt mortgage revenue bonds be extended, without any reduction in State volume caps.
- o We support the restoration of the Credit Control Act of 1969, on a standby basis, to permit use of selective credit regulation at such times as it may be needed in the future to bring about or maintain affordable interest rates.
- o The result of pending savings and loan restructuring legislation should, as a minimum, be a thrift industry dedicated to providing credit for housing for all income levels and with the use of suitable surplus residential real estate for helping meet low and moderate income housing needs. In addition, any housing so dedicated should be provided sufficient operating funds to maintain on a long-term basis its low or moderate income character.

HUD STAFFING

Frequent expressions of opposition to both HUD's mission and its programs by the previous Administration and those it chose to lead HUD have had a severely adverse impact on the morale of the HUD staff. In many program areas, the staff level is also woefully inadequate. Long delays in filling vacancies in subcabinet and other top supervisory positions, which have continued into the new Administration, have given the impression that the Department's role is unimportant. All of this has contributed to a significant decline in esprit de corps and productivity. We urge the Congress and the new Secretary of HUD to recognize, affirmatively, the important role that HUD's career staff plays in the success of its programs; to take such steps as are necessary to assure that the Department becomes an attractive place for professional and other workers to make a career; and to assure that the Department is

staffed at a level adequate to administer, effectively, its many essential responsibilities. To the extent that additional funds are needed to maintain adequate operating levels, we urge that those funds be appropriated.

PRIVATIZATION

We oppose all efforts to "privatize" the housing programs of the Federal Government. Proposals to sell off public housing to its residents, without regard to their ability to meet the operating costs of that housing and without replacement of that housing on a unit-for-unit basis, represent a complete denial of any Government responsibility to provide for the welfare of its citizens. We also are concerned about any significant expansion of tenant management of public housing projects until present studies are completed and have been objectively evaluated.

Similarly, proposals to remove the Federal Government from support for the mortgage market through the efforts of FHA, GNMA, FNMA, etc., would result in a severe retrogression to a time when fewer Americans could expect to own their home because of the inadequacies of the private mortgage credit system. The role of the Federal Government in supporting the goal of a decent home for all Americans is an essential one and we should not allow it to be obscured by the fog of privatization.

Approved: May 8, 1989

Senator CRANSTON. Thank you very much, and thank you for that opening enthusiasm for what we are attempting.

Our final witness at this stage of our process is Clare McCulla, Managing Attorney, Alexandria Branch, Legal Services of Northern Virginia.

STATEMENT OF CLARE McCULLA, MANAGING ATTORNEY, ALEXANDRIA BRANCH, LEGAL SERVICES OF NORTHERN VIRGINIA, ALEXANDRIA, VA

Ms. McCULLA. Thank you, Mr. Chairman.

I have been a Legal Aid lawyer for 10 years now, and I am across the river in Alexandria now. I didn't start out as a housing specialist, but all of the lawyers in our office have become something of housing specialists because at least in Northern Virginia housing is the problem that the majority of our clients come to us with. They cannot find housing that they can afford or, if they can afford it, there is something really drastically wrong with it.

I would like to speak very briefly, if I could, to the rental credits portion of the bill.

I guess I support the idea of a rental credits program, and I know that sounds very lukewarm but I think that there are certain things that have to be included in that program if it is going to make any difference to our clients.

The housing voucher and section 8 certificate programs are not working very well, at least in northern Virginia. I found out from an official from our local public housing authority that in Fairfax and Arlington as many as 50 percent of the section 8 vouchers and certificates come back to them unused, and the reason that they come back is that there are not enough landlords out there who will take either vouchers or certificates.

So obviously if that is the kind of rate of return that we are having in northern Virginia, the programs are not working as they were intended to work.

I think the rental credit program could work better, but the one point that I really wanted to stress was that I don't think it will work better unless the fair market rents are set at reasonable levels. If the bill or if the act as it is passed would include provisions that would force the fair market rents to be set at reasonable levels, then that will enable our tenants to use these programs and to get decent places to live.

In Alexandria, for example, right now we have got only a 4 percent vacancy rate all the way across the board with our apartment housing. The fair market rent for a one-bedroom unit in Alexandria right now is \$574 per month. That is the HUD section 8 rent, but the average one-bedroom rents for \$618 a month.

The difference is even worse for two-bedroom units. The section 8 rent is \$676 a month, but the average two-bedroom apartment in Alexandria runs for \$750.

What that means is there are a lot of landlords out there who will not participate in the program because it is not convenient financially for them to do so. If the fair market rents are not set adequately, that is going to continue, even if there are lots of other incentives for landlords to participate in the program.

So my one hesitation about the rental credit program would be if those fair market rents are set as badly as they are now, I don't know that it is really worth it.

I also very much support the idea that the working poor be included in the program, and that means raising the ability to participate in the program to people who make as much as 80 percent of the median income.

A lot of our clients right now fit within that up to 80 percent of median income guideline. They are using the voucher program now primarily, the ones that I am aware of anyway, and they are paying 45 or 50 percent of their income as rent. If those people are bumped out of the program under a rental credit system or any other changes in section 8 and they lose what assistance they are getting, they are not going to be able to live in decent housing. They are going to have to double up. They are going to have to live in slum housing, and they are going to be forced if they do try to make the payments on the more expensive housing to be right back in not genteel, but really bad poverty, and I think it would be terrible were that to happen to folks who are working very hard to try to keep themselves in a better situation.

Overall, I think that the program as proposed is a good one, and I would strongly support it because I do think that it would keep our tenants in a better position. I very strongly also support what everybody pretty much has said, that the 30 percent limit has to be kept, paying 30 percent of your income as rent. If people in other than very extraordinary circumstances are allowed to pay much more of their income as rent as they are now, that is just too much, and it takes away far, far too much from other important things that they need to be able to pay for, like medical care, education for their families, and the like.

I thank you very much for listening to these comments on behalf of some of my tenant clients, and we do very much support the bill.

[The complete prepared statement of Clare L. McCulla follows:]



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TESTIMONY OF CLARE L. MCCULLA, LEGAL SERVICES OF NORTHERN VIRGINIA BEFORE THE SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS REGARDING THE NATIONAL AFFORDABLE HOUSING ACT

JUNE 16, 1989

My name is Clare McCulla. I am an attorney with Legal Services of Northern Virginia in Alexandria. Much of our work centers around housing issues and the lack of decent affordable rental housing in Northern Virginia for our low-income clients. As a housing lawyer I am intimately familiar with how the present Section 8 certificate and voucher programs work in Alexandria. I also have strong views regarding some of the proposed provisions of the National Affordable Housing Act.

Alexandria now has 466 Section 8 vouchers and 357 Section 8 certificates. Each year about fifteen percent of those certificates and vouchers are returned unused because the tenants cannot find places to use them. This fifteen percent rate is abnormally low, in part because two years ago more than 150 units were added to the Section 8 rolls as part of the settlement of a Fair Housing Act lawsuit. In Arlington and Fairfax the rate of return is closer to fifty percent, and I believe that that rate is a more accurate reflection of how difficult it really is in urban areas to use a voucher or certificate.



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Even if a tenant is able to find a place that will accept a voucher or certificate, there are still significant problems for many tenants. One of my clients right now, for example, is an elderly woman who has custody of her severely disabled grandson. Their income is solely from Social Security benefits. They have a Section 8 voucher which they use for a very nice apartment in the same complex where they have lived for many years, but the rent is so high that they pay over forty-five percent of their monthly income for rent. Because of that high rent, they cannot afford to own a car, and my client transports her grandson by bus even though he is on crutches or in a wheelchair. In addition, they obtain all of their clothes from charities or thrift stores since they cannot afford to buy new clothing.

Another one of my clients is a working man. His wife also works, and their two children are in school. Although they qualify for either a three or two bedroom Section 8 unit, they have elected to squeeze into a two bedroom unit to try to keep the cost down. They have a voucher, but the rent they must pay for a unit near the bus line to his wife's job is so high that they pay nearly fifty percent of their gross income for rent.

I have another client who has a Section 8 certificate, so she is of course restricted to paying only thirty percent of her income as rent. Having a certificate, however, also means that she is very restricted in the number of places available to her because of the limit on the amount of her certificate. She finally found

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a landlord who would take her certificate, but the basement which is counted as one of her bedrooms is a mess. Alexandria City Code Enforcement officials have found more than a dozen Code violations in the basement including bad water leaks and a completely unusable bathroom. My client remains there, however, because she can't find anywhere else to go.

I would like to comment briefly on two proposals in the rental assistance portion of the proposed Act which are extremely important in a place like Alexandria where rents are very high. One is the proposal to limit tenant rent contributions under the rental credit system to thirty percent of income for most tenants. This proposal will help to alleviate what has been a real problem for many of our clients: they have to forego important expenditures like clothing and medical care because they are paying high percentages of their incomes as rent even with Section 8 assistance.

Another important change from the present programs is that more than one Fair Market Rent (FMR) could be set for an area if that would expand housing opportunities. Most non-project-based Section 8 housing in Alexandria is clustered in certain lower-cost heavily minority areas of the City. Higher Fair Market Rents would encourage acceptance of Section 8 rental credits in "better" areas which now have fewer minority renters.

If both of these proposals become law, then the objective of giving low-income tenants a true choice of decent affordable

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housing will be better served than under the present certificate and voucher programs.

I do have some concerns relating to these two proposals, however. The Fair Market Rents now in effect in the Section 8 programs are terribly low. For example, the Fair Market Rent for a one-bedroom unit is \$574.00 per month, while the average one-bedroom unit in Alexandria rents for \$618.00. The Fair Market Rent for a two-bedroom unit is \$676.00 per month, but the average two-bedroom rent is \$750.00. I do not think it is enough to allow possible higher FMRs for certain areas under very limited circumstances. All of the FMRs need to be raised considerably or rental credit tenants will continue to have the same problem certificate holders have now of having great difficulty finding decent units.

It may be desirable to include the proposed provision for a limited number of rental credit holders in very special circumstances to rent units which are more expensive than the Fair Market Rents. This provision cannot, however, be used as a way to mask or excuse the setting of the standard FMR's at too low a level. In addition, if some tenants will be paying higher than FMR levels and thus more than thirty percent of their incomes as rent, then the law should also permit any tenant who is lucky enough to find a unit renting for less than the FMR to pay less than thirty percent of income as rent, as is the provision under the present voucher system.

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I believe that the National Affordable Housing Act, if passed, could be very beneficial to my clients and other low-income persons. It will help them in their difficult struggle to find decent housing that does not cost their entire incomes. Thank you for this opportunity to share my views with you.

Senator CRANSTON. Thank you very much. We appreciate that support a great deal.

Now, I do have just a few areas I would like to cover with you, and again I will pose a general question. Whoever wishes to comment first, do so, and then if there is any contrary views or expansion of views or other views, please express them.

First, on the tenant rent affordability matter, the rental credit proposal is intended to combine the best elements of the voucher and certificate programs. Rental credits would, for example, retain the general rule that tenants pay no more than 30 percent of adjusted income for rent as contained in the certificate program, yet the act would also recognize, like the voucher program, that in some situations tenants may choose to contribute a higher portion of their income for rent.

What are your views on that particular compromise between the two programs?

One observer has recommended that a jurisdiction be required to demonstrate the adequacy of its fair market rents by showing a high success rate for credit holders before permitting tenants to pay a higher rent contribution, and what do you think of that idea? Mr. Simon.

Mr. SIMON. I think that is worthwhile pursuing, but on the other hand, I think that by permitting people, residents or applicants, to pay a higher rent in some cases you simply drive—if there is a great housing shortage, you drive up the rental market, the rents in that particular community, because if the owners know that they can get more and the applicant is badly in need of housing, he most likely will pay the higher rent and, in general, a higher base rent for that community will be established.

Now, in some communities that may not apply, but where there is great housing shortages as in some cities on the west coast, on the east coast, I think it could be dangerous and would simply establish a much—the 30 percent would then just become a base, and I think you would have to be building a whole lot more safeguards than I am aware of right now.

Senator CRANSTON. Any other views?

Yes.

Mr. VAN NESS. Not that I differ that much, but the thing that we have considered is that this is a consumer program and we have felt that the user, the beneficiary of the rental assistance ought to be able to pay more if they do so. However, they should be counseled as part of our routine briefing as to just what the marketplace is.

The advantage in allowing it is that it will give us some information as to what is actually happening in the marketplace. So we would have good documentation to show that the FMR's are out of control. If a significant percentage of our families are having to pay that for routine housing, not for extras but for just basic housing, then we would have the documentation to justify the increase in the FMR's.

Mr. McCAULEY. I think we would support it with the appropriate safeguards, that a tenant could make the choice to pay more than 30 percent. In my own experience, I can think of seniors who have approached us under the fair market certificate program and be-

cause of the fair market rent provision that you shall not pay more than 30 percent sometimes they were put in the position of having to relocate from places that they did not want to relocate from just because of that provision.

So I think with appropriate safeguards, administratively I think it is important to have it.

Senator CRANSTON. Anything else?

If not, on contract terms for rental credits, the rental credits essentially adopt the voucher contract term of five years. This simply is necessary because of budgetary pressures. However, the bill would permit longer term commitments in the case of project-based rental credits. The act would authorize a PHA to contract with an owner for renewal of rental credits for longer than 5 years contingent upon fund availability in exchange for the owner's commitment to accept such extensions when they are offered.

Given that we are forced to accept a 5-year contract term, how do you assess the usefulness of the project-based solution in the legislation? How would the act's special rules for extending the term of project-based assistance resolve any of your concerns? Would it do so?

Yes, again, Mr. Simon.

Mr. SIMON. Perhaps to solve this problem the whole question of the process of budget authority should be looked at.

Under the present system I don't think you have any other way out, and with Gramm-Rudman staring you in the face, I guess that is what you have to do.

But perhaps the whole question of extension of the budget authority and the way you are looking at budget authority for housing should be looked at so that you will be able to finance it or budget it in a different manner.

Five years are better than nothing, but it is a very insecure term for many owners and residents alike.

Senator CRANSTON. Any other comments?

Yes, Ms. Charlton.

Ms. CHARLTON. If I could just comment—and I agree with what Mr. Simon said, but putting together a new construction program, obviously the most expensive thing you can do is build new housing for those most in need, and what we have found today is that it takes a variety of sources to put just one project together.

The low income tax credit program, which as it stands now provides for a tax credit for 15 years, the program, while it has been successful, has had limited success because of the lack of subsidy programs that can be utilized with it. It can be a very risky program.

If a 15-year project-based term could coincide with a tax credit, then securing financing would be more possible. I don't know many lending institutions that may commit to an appropriate amount of financing for property on the promise, perhaps, of an appropriation.

Ms. McCULLA. I think from the resident's point of view anything that can increase the length of time that they can be certain that they can remain in a specific unit is very important because if you are looking at the potential of being able to live where you just moved in for, at best, five years, that is very anxiety producing and

very difficult, especially if you are in an area where there is not much else available for you that you can afford that is close enough for you to get to work, or whatever.

So if there is anything that can happen that would extend that to 10 or 15 years, that is very valuable from a tenant's point of view.

Senator CRANSTON. Mr. McCauley.

Mr. McCAULEY. We would support the 15-year provision as really critical to persuade landlords to fix up units that are substandard and to be able to get the funding to do it. It means it is a way to get units that are in our communities right now and not acceptable under any assistance program upgraded to a level that would make them useful again, and we would very much support it.

Senator CRANSTON. Good.

The next thing I would like to get into is the distribution of rental credits.

The act would permit states and localities participating in the HOP program to make decisions on the allocation of rental credits. The administration of contracts would remain with HUD, as under current practices. Participating states and localities would be required to notify HUD within 30 days of their allocations to contracting agencies, which in virtually all cases will be public housing authorities like now.

This change in the distribution procedure is intended to give states and localities all the tools—capital subsidies, rental subsidies, credit enhancement, technical assistance—that are needed to carry out effective housing strategies.

The change is also intended to replace the highly discretionary process that was administered by regional offices with few written or explicit guidelines.

So the question is, what do you see—or do you see the benefits of this direct distribution, and what potential drawbacks are there? Mr. Van Ness.

Mr. VAN NESS. The biggest benefit would be it is something predictable and understandable. I think our concern, which I spoke to before—and it may have been from a lack of understanding or knowledge—we have a serious concern if the States are thrown in as one of the actors.

We can show that we have administered programs locally efficiently without that control or rake-off of funds on the top, if you will.

In Kentucky, the State of Kentucky has run the Section 8 program in the rural areas quite well, but in our cases, the metropolitan areas, we would want to know just what we could expect and have the funds come directly to us.

Senator CRANSTON. Any other thoughts on that?

Yes.

Mr. McCAULEY. I would just reiterate the comment I made in my opening remarks, that there will be a tendency for state and local community development agencies and city government to move in favor of project-based developments to the detriment of people who have been on the waiting lists, and I think that is the major drawback.

Mr. SIMON. We are also concerned about—while we have no specific policy on it in the National Housing Conference, we are concerned that some states and localities who may not want any of that type of housing assistance simply will not do anything about it, and then nothing will happen.

Mr. VAN NESS. Title V does have the setaside for the handicapped use of the rental credits, and I am speaking for myself only now. I would concur in that reservation at the national level where you are dealing with special purpose funds.

Senator CRANSTON. If a state didn't participate, it would remain in HUD's hands to be the administrator.

Finally, on the matter of section 8 opt-outs.

In recent years the problems of owners opting out of project-based Section 8 contracts have become increasingly severe.

As with the problem of prepayment of older subsidized mortgages, opt-outs seem to be incurring in tight rental markets characterized by soaring rents.

So how extensive is the problem of section 8 opt-outs from your perspective? Are our current policies adequate to address the problem?

What lessons can we draw for future policies? Should project-based assistance be provided only to owners that agree to provide affordable housing for the long term?

Ms. McCULLA. I can only answer, I think, part of that question. They are a real problem in a place like Alexandria.

Right now one owner is opting out of the section 8 program, and the affected tenants are all elderly persons. There are going to be about 70 of them when he is finished with the whole process.

We have also had another small apartment complex in Alexandria in the last year or so that has prepaid its 221(d)(3) mortgage. It is only a 78-unit complex. So the city bought it. But obviously that is not a solution for other complexes or for the long term.

So the answer to part one of your question, Senator, is it is a problem, and it is a real problem, and in Alexandria when our city housing office began to ask of other project owners what do you think you may do when your time comes up, the majority of them said we will probably get out at the earliest possible time.

I can't really answer—because I just don't know—what to do about it.

I am sure these folks are much more intelligent about that than I am. But I would say it is a real bad problem already.

Senator CRANSTON. Ms. Charlton.

Ms. CHARLTON. A majority of the properties that we are looking at are driven by limited partnerships, and if you look back in 1986 to what happened, most of the tax benefits, which is what these investments were originally entered into for, are gone.

What that does is make these properties low income real estate investments—they have to be treated as real economic real estate investments.

I can't stress the importance that tax changes have placed on cash flow distributions so that these investors can pay the tax bills that they are now incurring.

These investors look at these properties initially as investments, but I think the more that they have read in the press about housing shortages, the more that it hits home to them.

My experience has been that a great many investors are feeling they are making a valuable contribution, but they have been penalized a great deal at this point to make that contribution.

If you allow incentives to be utilized there is really no effect on the Federal budget at all. It does place emphasis on management on these properties. If you increase the LD on a property from 6 to 10 percent, 10 to 12 percent, along with redefining the equity so that you are talking about dollars in today's terms, that money can't be paid out if the property itself doesn't generate it. We are not asking for any more budget authority to implement these incentives. We are just asking you to let us distribute the funds that these properties might produce.

There are a number of other small provisions that may be considered, such as requiring that some of these reserves be placed in tax-exempt instruments. Investors are now paying tax on interest on income that they will never see.

The problems get compounded, so investors get somewhat disconcerted. But if their investment situations are improved it will go a long way towards insuring stability of housing inventory for low income Americans.

Senator CRANSTON. Thank you.

Mr. SIMON. If I may, one brief comment. We recommend incentives to keep those projects and developments onstream. It costs some money, but a whole lot less than it would cost to replace the units later on and much less than the bailout of the savings and loans.

Mr. McCAULEY. I would just agree with John, not knowing that much about it.

Senator CRANSTON. I am glad to get a disagreement.

Mr. McCAULEY. It is the most sensible thing I have heard for keeping them in use for low-income people.

Mr. VAN NESS. Senator, the fact that it exists would also indicate that in many cases there is justification to strongly consider the development of additional public housing that is a permanent source of affordable housing.

Senator CRANSTON. That completes the questions that I have.

Are there any loose ends or any last minute words of wisdom that any of you want to offer?

[No response.]

Senator CRANSTON. You have been wise and helpful, and I appreciate it very, very much.

We now stand adjourned. We will be moving forward in the days ahead.

Thank you all very much.

[Whereupon, at 12:50 p.m., the subcommittee was adjourned.]

